

## **Pillar 3 Disclosures 2015**

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## **1. Introduction**

### **1.1 Corporate Information**

Bank of Cyprus Public Company Ltd (Bank, Company) is the holding company of the Bank of Cyprus Group (Group). The principal activities of the Bank and its subsidiary companies involve the provision of banking, financial, insurance services and management and disposal of property.

The Bank is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Bank has a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX). It is also a public company for the purpose of Cyprus Income Tax Laws.

### **1.2 Pillar III Regulatory Framework**

#### **Regulatory framework overview**

On 1 January 2014, the Capital Requirements Regulation (EU) 575/2013 (CRR) and the Capital Requirements Directive (CRD IV) came into force. The new legislative package is considered as a key step towards creating a sounder and safer financial system.

CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, which allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase in until 2024.

The Central Bank of Cyprus (CBC) has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and in 2014 set the minimum Common Equity Tier 1 capital ratio at 8% on a transitional basis (Pillar I capital requirements). The Group is also subject to additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons). However, the Group's Pillar II add-on capital requirement is a point-in-time assessment and therefore is subject to change over time.

Based on the provisions of the Macroprudential Oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital Buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the first two quarters of 2016.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0,5% and increasing by 0,5% every year thereafter, until being fully implemented (2,0%) on 1 January 2022.

The capital conservation buffer is 2,5% over the minimum CET1 ratio. The revised Pillar II CET1 minimum capital requirement of the Group was determined by the ECB to be at 11,75% which includes the capital conservation buffer.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

## **1.2 Pillar III Regulatory Framework (continued)**

### **Regulatory framework overview (continued)**

The current regulatory framework comprises three pillars:

- Pillar I covers the calculation of risk weighted assets for credit risk, counterparty risk, market risk and operational risk.
- Pillar II covers the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of a bank's capital adequacy and internal processes.
- Pillar III covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management and internal control processes.

### **Basis and frequency of disclosure**

The 2015 Pillar III disclosures report (Report) of the Group sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar III framework requirements (see Appendix I for specific references to CRR).

The Report is published annually and certain disclosures are published on a more frequent basis if necessary on the Group's website <http://www.bankofcyprus.com> (Investor Relations) and in conjunction with the Group's Annual Financial Report, in accordance with regulatory guidelines. The Report provides additional information on the capital and risk profile of the Group.

### **Verification**

This Report is published by the Group as per the formal disclosure policy approved by the Group's Board of Directors (BoD).

The 2015 Pillar III Report was approved by the BoD on 31 March 2016. The information contained in the Report has been approved by the Group's Audit and Risk Committees. The Bank has a policy covering the frequency of disclosures, verification and their overall appropriateness.

## **1.3 Scope of Application**

### **Differences on the basis of consolidation for financial reporting and prudential purposes**

The data included in this Report may be different than the respective accounting data prepared in line with International Financial Reporting Standards as adopted by the EU (IFRS), mainly due to differences between the prudential consolidation basis and the accounting consolidation basis and/or differences in the definitions used (reconciliation between the balance sheet presented in the consolidated financial statements of the Group for the year ended 31 December 2015 (Consolidated Financial Statements for year 2015) and the balance sheet prepared for prudential purposes is presented in Section 3).

The accounting consolidation basis of the Group is prepared in accordance with IFRS and is described in Note 3.4 of the Consolidated Financial Statements for year 2015. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of regulatory capital requirements. The basis of consolidation of the Group entities for accounting and prudential purposes is presented in Appendix II.

## **2. Risk Management Objectives and Policies**

### **2.1 Strategies and Processes to Manage Risks**

#### **2.1.1 Risk Management Framework**

The Group aims to embed explicit and robust risk management practices in all areas of the business, from the initial design of its business strategy to the sale of services and products to its customers, so as to ensure that the level of risk it faces is consistent with the BoD's approved Risk Appetite Statement and corporate objectives. This is achieved by implementing a sound, coherent and comprehensive risk management framework for the identification, assessment, monitoring and control of risks within the Group. The Group's risk management framework improves the service provided to customers, enhances the Group's productivity and cost effectiveness, and protects and maximises shareholder value. It also allows the Group to adapt and meet challenges in a structured way, so that it can continuously align its strategy and business objectives against a background of changing risk and uncertainty.

The ability of the Risk Management Division (RMD) to carry out risk management responsibilities in an unbiased manner rests on its independence. To that end, the following are in place:

- Organisational independence of RMD from the activities assigned to be controlled. The overall Group structure as well as the RMD structure are designed to ensure clear lines of responsibility and accountability for the purpose of enhancing sound internal governance, appropriate segregation of duties and minimising conflicts of interest.
- Group Chief Risk Officer (GCRO) has a dual reporting line to the Risk Committee (RC) and to the Chief Executive Officer (CEO).
- GCRO has direct and unrestricted access to senior management and the BoD through the RC and the Group Executive Committee (EXCO).
- RMD staff and operation is separate from the business lines.
- The RC assesses and monitors the independence, adequacy and effectiveness of RMD.

The Group's risk management framework is based on four key elements: a) Risk Governance; b) Organisational model and risk functions (guidelines, monitoring and reporting); c) Risk Appetite and Risk Policies; and d) Risk Culture.

The Group's risk management framework has been developed to:

- Ensure that a level of capital adequacy as approved from time to time in the Risk Appetite Statement is maintained and safeguard that the total risk taken across the Group is not greater than the Group's ability to absorb losses.
- Allow the Group to proactively manage its risks in a systematic and structured way and to continuously refine its processes in order to reduce its risk profile and ultimately its capital requirements.
- Ensure appropriate strategies are in place to mitigate or transfer risks.
- Ensure that risk management is an integral part of the Group's process of strategic decision making and capital planning.
- Help create a culture of risk awareness at all levels within the Group.
- Engage the Group management's attention to the management, monitoring, reporting and reviewing of identified risks, as well as consider new and emerging risks on a continuous basis.

The Group's risk management framework is monitored by various executive and board committees as described further below (Section 2.1.3). The framework and its constituents are subject to compliance and assurance reviews that endorse its effectiveness or where necessary identify issues to be addressed.

The Group's management and BoD are satisfied that these arrangements are appropriate given the risk profile of the Group.



### 2.1.2 Risk Inventory

As part of its business activities, the Group faces a variety of risks, the most significant of which are described further in dedicated sections below as well as in Notes 44-47 of the Consolidated Financial Statements for year 2015 and in the Additional Risk and Capital Management Disclosures included in the 2015 Annual Report. The Group holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk (including litigation risk) as required by CRR/CRD IV, all of which are defined below.

#### *Credit Risk*

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract (actual, contingent or potential claims both on and off balance sheet) with the Bank or failure to perform as agreed. Within the general concept of credit risk, the Bank also identifies and manages the following risk types:

- Counterparty credit risk: the Bank's credit exposure products with other counterparties.
- Settlement risk: the risk that a counterparty fails to deliver the terms of a contract with the Bank.
- Issuer risk: the risk to earnings arising from a credit deterioration of an issuer of instruments in which the Bank has invested.
- Concentration risk: the risk that arises from the uneven distribution of exposures to individual borrowers or by industry, economic sector or geographical regions.
- Country risk: the Bank's credit exposure arising from lending and/or investment or the presence of the Group to a specific country.

#### *Market Risk*

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the prices of interest rate instruments, foreign exchange, the prices of other financial market instruments, the correlations among them and their levels of volatility. Market risk also emanates from the funding and liquidity mix of the Bank, as well as from concentrations in the loan portfolio and asset mix. Liquidity and funding are also individual risks that are closely monitored within the broad category of market risk.

#### *Operational Risk*

Operational risk is defined as the risk of a direct or indirect impact resulting from human factors, inadequate or failed internal processes and systems, or external events. Operational risk includes – inter alia - actual and/or potential losses caused from human processing errors, system failures (software and hardware), electrical/telecommunications failures, external events, such as natural disasters damaging physical assets, non-compliance with Law and regulatory requirements, and employee fraud, as well as external fraud, or other malicious acts (terrorism, vandalism, sabotage). Information security risks, business resilience and continuity risks, conduct risks, legal risks and model risks fall under the scope of Operational Risk. Even though not included in the Basel definition of Operational Risk, reputational risks are also actively identified and managed by the Bank within the Operational Risk Management framework.

#### *Litigation risk*

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it. Additional information on Litigation risk is disclosed in Note 39 of the Consolidated Financial Statements for year 2015.

### 2.1.3 Risk Management Governance

The overall responsibility for approving and monitoring the Group's overall strategy, risk appetite and policies for managing risks lies with the BoD, which exercises this responsibility through:

1. The Board's Risk Committee (BRC).
2. The Board's Audit Committee (AC).

The BRC plays a key role in setting the risk appetite and strategy of the Group and ensuring compliance with risk management strategy, policies and regulations (section 2.3.4). The AC is responsible, among others, for the effectiveness of the Group's system of internal controls.

Additionally, the Group Risk Management Framework is monitored by various executive and management committees:

1. The Group's Executive Committee (EXCO).
2. The Group's Asset Acquisition and Disposal Committee (ADC).
3. The Group's Assets and Liabilities Committee (ALCO).
4. Executive Management Credit Committees.

Critical in this context is the role of the GCRO who:

- Oversees the entire risk management function, including overseas and local subsidiaries and promotes the development and implementation of a consistent Group-wide risk management framework.
- Provides regular briefings and guidance to the Group Executive and other Group Committees to ensure that they are aware of the overarching risk management framework and that they have a clear understanding of their accountabilities for risk and control.
- Is a member of the Group's Executive Committee, the ADC (holds veto power), the ALCO and an observer with veto power in the Credit Committee 3, the highest executive credit committee. His representatives (Credit Risk Assessment Department) are observers in other credit committees with equal power of veto. The veto power held can only be cancelled by the BRC.
- Participates directly or through his delegates (Manager International Risk Management & Other Subsidiaries, Market Risk Manager, Operational Risk Manager) to the following committees of Group subsidiary companies:
  - BOC UK Audit, Risk, Advances Committees and ALCO.
  - General Insurance of Cyprus (GIC) Audit & Risk Committee and ALCO.
  - Eurolife Risk Committee and ALCO.
  - JCC Risk Committee.
  - BoC Asset Management Company Risk Committee, Board of Directors and Investment Committees.
- Oversees the effectiveness of the implementation of the Bank's RMD's policies.
- Reviews and recommends appropriate limits for all identified risks.

BoC has established the Three Lines of Defence model as a framework for effective risk management and control which depicts the relationship of RMD with other internal control functions.

### 2.1.3 Risk Management Governance (continued)

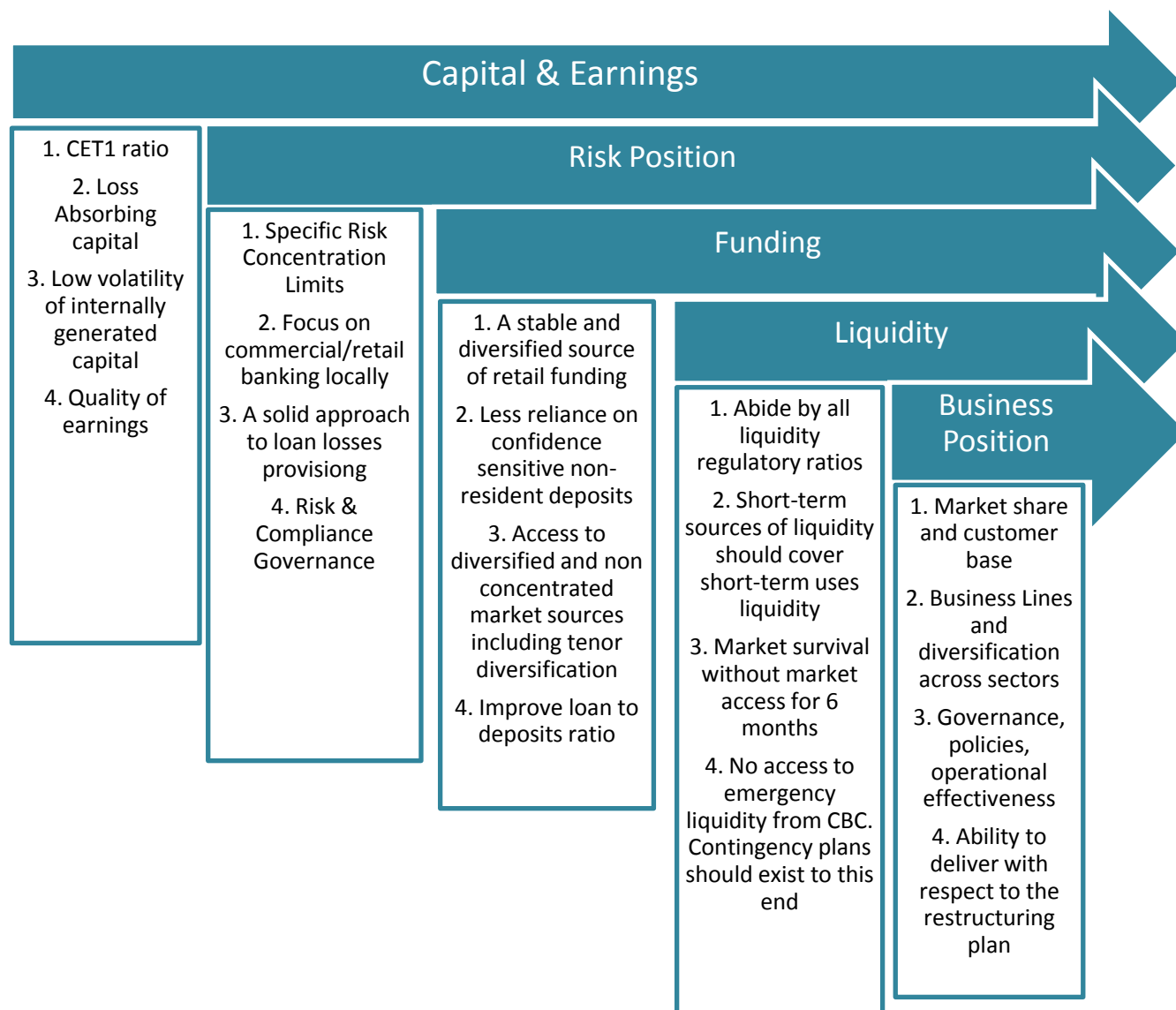


The first line of defence against impending risks lies with line management. The second line of defence consists of the Risk Management and Compliance units of the Bank, which are responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives. The third line of defence relates to Internal Audit and independent assurance providers.

The main role of the Risk departments assigned to the second line of defence is to provide the tools and methodologies for risk management to the business units, to promote risk awareness, to engage business units in identifying, measuring and mitigating risks as appropriate, to report the losses from risks identified to Executive Management and the Regulatory Authorities, to facilitate the collection and monitoring of Key Risk Indicators (KRIs), to identify risks at Group level in cases where these risks are not managed by a specific business unit and to make sure that actions mitigating risks are implemented.

#### 2.1.4 Risk Appetite Statement

Risk appetite is the amount and type of risk that the Group is able and willing to accept in pursuing its business objectives. Risk appetite is expressed in both quantitative and qualitative terms and covers all risks, both on-balance sheet and off-balance sheet. Such risks include, but are not limited to, credit, market, operational, conduct, reputational and compliance risk. The BoD has approved a Risk Appetite Statement, expressed along multiple dimensions, including both 'normal' business conditions and 'stressed' scenarios with zero tolerance for regulatory, legal or compliance risks.



Where appropriate, risk appetite statements are also prepared for subsidiary companies. These statements are subject to approval by their BoDs. BoC UK, Eurolife and GIC have approved risk appetite statements in place whereas JCC's relevant statement is currently at the finalisation stage. Furthermore, a risk appetite statement will also be prepared for CISCO in 2016.

The Group currently operates in a macro environment well outside its risk appetite and as a result almost all major risk areas are significantly affected. The BoD is deemed as the appropriate body to set the risk appetite, which provides medium to long term direction to executive management.

#### 2.1.4 Risk Appetite Statement (continued)

During 2015 the Group has taken steps to move closer to its risk appetite by lowering emergency liquidity reliance, improve internally generated capital to strengthen its capital position, deleveraging from risky non-core jurisdictions, improving its governance and building on its reputational weaknesses. Despite the many positive steps, as at the end of 2015 the Group operates outside of its risk appetite in the following major areas:

- *Liquidity*: reliance on emergency liquidity continues; along with violation of regulatory ratios. There has been significant progress in this front in 2015.
- *Funding*: funding diversification and adequate maturity/tenor diversification is not achieved. The loans to deposit ratio is above 100%.
- *Risk Position*: asset quality with significant legacy issues continues to be stressed and the current Non Performing Exposures (NPEs) level is not within the Group's risk appetite. There are also violations of concentration limits due to legacy positions that are currently being worked down.
- *Capital and Earnings*: Volatility and quality of earnings needs to be closely monitored and managed together with deleveraging actions and disposal of non-core assets.

As described above, the Group's Risk Appetite Statement is not static and thus is continuously monitored and evaluated against Group performance so as to ensure it reflects its business model and that any deviations are promptly identified and receive the appropriate attention. The BoD is satisfied that during 2015 the Group has taken steps to move closer to its risk appetite in areas of deviation.

#### Key Performance Indicators

The below table shows the Group's performance in relation to Key Performance Indicators (KPIs) vis-a-vis the 2017 targets.

Group Key Performance Indicators		Actual December 2014	Actual December 2015	New Medium- Term Targets
<b>Asset Quality</b>	90+ Days Past Due ratio	53%	50%	<30%
	90+ Days Past Due coverage	41%	48%	>50%
	Provisioning charge <sup>1</sup> (Cost of Risk)	3,6%	4,3%	<1,0%
<b>Funding</b>	ELA % Assets; € bn	28% €7,4 bn	16% €3,8 bn	<b>Fully Repay</b>
	Net Loans % Deposits	141%	121%	<b>100%-120%</b>
<b>Capital</b>	CET 1 (transitional)	14,0%	14,0%	<b>&gt;15%</b>
<b>Efficiency</b>	Net Interest margin	3,9%	3,8%	<b>~3,00%</b>
	Fee and Commission income / total income	13%	15%	<b>&gt;20%</b>
	Cost to Income ratio	37%	40%	<b>40%-45%</b>
<b>Balance Sheet</b>	Total assets € bn	€26,8 bn	€23,3 bn	<b>&gt;€25 bn</b>

As part of its deleveraging strategy, and through specific, deliberate and well-timed actions, the Group has managed to reduce its risk profile, to enhance its liquidity position and to improve its capital position through the disposal of operations that are considered as non-core.

<sup>1</sup> IFRS 9 impact, which is effective as from 1 January 2018, has not been taken into account for the purpose of the targets. Targets are set on the basis of the present regulatory environment.

#### **2.1.4 Risk Appetite Statement (continued)**

Following the significant deleveraging achieved, the remaining non-core overseas operations as at 31 December 2015 are as follows:

- (a) Greece, comprising net on-balance sheet exposures (excluding foreclosed properties) totalling €22 million (2014: €120 million), 641 foreclosed properties with a book value of €173 million (2014: about 600 foreclosed properties with a book value of €179 million), off-balance sheet exposures totalling €131 million (2014: €185 million), lending exposures to Greek entities in the normal course of business in Cyprus totalling €81 million (2014: €95 million) and lending exposures in Cyprus with collaterals in Greece totalling €70 million (2014: €71 million),
- (b) Romania, with an overall net exposure of €312 million (2014: €520 million), and
- (c) Russia, the remaining net exposure (on and off balance sheet) is €114 million (2014: €130 million) and is expected to be reduced over time.

#### **2.1.5 Risk Culture**

The BoD and BRC have a critical role in strengthening risk governance, including setting the 'tone at the top', reviewing strategy, and approving the Group's Risk Appetite Statement. It is the BoD that is ultimately responsible and accountable for risk governance.

The independent and strengthened RMD has a mandate to define sound policies reflecting the approved risk appetite of the Group and monitor risks in a proactive manner across the business segments. RMD is structured in such a way to ensure all risks across the Group have ownership, accountability and clear reporting lines.

A robust risk culture is a substantial determinant of whether the Bank will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Bank wishes to build is reflected in its policies and procedures and these are closely aligned to its risk appetite. Risk culture is manifested in the day-to-day decisions that indicate how risk is identified, understood, discussed and acted upon.

The Group has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

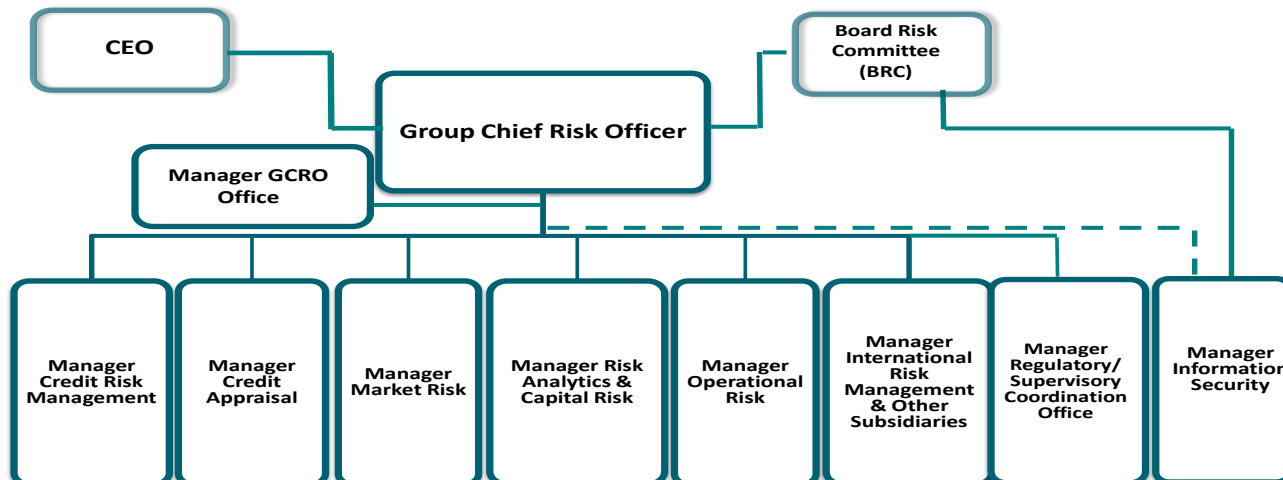
- Embedding risk culture at all levels of the organisation with clear ownership and accountability of tasks.
- Conducting firm-wide risk assessments.
- Implementing formal risk education presentations.
- Changes in job content and descriptions of key personnel.
- Changes in policies and procedures, introducing additional risk criteria for the evaluation of credit and investment decisions.
- Changes in key personnel.
- Training of front-line personnel.

Furthermore, the Group takes risks in connection with its normal business and as such, the following principles underpin the inherent risk culture:

- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated.
- Risk should be continuously monitored and managed.

### 2.1.6 Risk Management Division

The structure of RMD is shown in the diagram below:



Several teams within RMD cover overarching aspects of risk management. Broadly, they are responsible for the following functions within the Group's risk management framework:

- Provision of a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Bank (risk appetite, stress testing framework).
- Facilitation of policy setting in line with the strategic and business objectives.
- Development of the framework for appropriate risk governance.
- Co-ordination of risk management activities within the Group.
- Development of risk measurement and monitoring tools.
- Assessment and aggregation of all material risks to ascertain the Group's overall risk position.
- Development of capital adequacy assessment models.
- Compliance with relevant Regulatory and Competent Authorities requirements.

Furthermore, Group Risk Management has a dedicated unit reporting directly to the GCRO, whose primary responsibilities are to oversee the business conducted by the Group's overseas operations and local subsidiaries. The manager of this unit works with the Executive management team (both at Group and local level) to develop a risk appetite framework, customised to the unique circumstances of each entity, but within the overall Group's preference towards risk and also to develop and apply suitable risk policies. The participation of the GCRO and other appropriate managers in relevant subsidiary committees further promotes the integration of the Group's risk management strategy at a subsidiary level.

### 2.1.7 Risk Management Process and Policies

The Group places great emphasis on robust risk governance processes and policies as they form part of the decision-making process, in order to ensure that risk issues, risk mitigants and the cost of accepting or managing risks are taken into account. Ad-hoc or rushed processes are avoided to the extent possible.

The risk management process is integrated within the Group through established internal policies, systems, controls and comprehensive reporting, commensurate with the complexity of the Group's activities and structure. The system of internal controls provides reasonable assurance for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Group's risk appetite. The policies have been approved by the BoD during 2014/2015 and further revised, where appropriate, in 2015.

The risk management policy universe is as follows:

S/N	Policy name	Revision Period
1	Lending Policy	Annual
2	Information Security Policy	Annual
3	Asset Acquisition & Disposal Policy	Annual
4	Liquidity Policy Statement	Annual
5	Credit Performance Monitoring Policy	Annual
6	Regulatory Coordination and Communication with Competent Authorities (joint policy with Compliance)	Annual
7	Provisioning Policy	Annual
8	Concentration Risk Policy	Annual
9	Business Continuity Management Policy	Annual
10	Reputational Risk Management Policy	Annual
11	Liquid Assets Investment Policy	Annual
12	Country Risk Policy	Annual
13	Fraud Management Policy	Annual
14	Operational Risk Management Policy	Annual
15	Stress Testing Policy	Annual
16	Market Risk Policy	Annual
17	Insurance Policy	Annual
18	Valuation Policy	Annual



### 2.1.8 Recovery Plan

The CBC requested the Bank on 14 March 2014 to prepare a Recovery Plan based on the guidelines provided by the European Banking Authority (EBA).

Following the principles laid out by the EBA, the Bank's Recovery Plan:

- Distinguishes between critical and non-critical business lines and assets, in order to prioritise the parts that can be disposed of.
- Provides for a concrete and well-functioning crisis governance system to ensure appropriate action under stress.
- Includes recovery measures that leverage on the Group's own resources to get out of the crisis, instead of relying on State or EU funds and support mechanisms.

The Recovery Plan also provides a listing of overall Bank's recovery indicators and early warning "trigger" indicators, it details the potential recovery options, it describes severe stress scenarios, and it defines an implementation plan for measures in these scenarios, and lastly articulates a communication plan and information management principles.

In accordance with the regulatory requirements, the Bank's Recovery Plan will be updated annually or more frequently in case of material changes. The next update will take place in September 2016.

### 2.1.9 Stress Testing

Stress testing is a key risk management tool used by the Group to rehearse the business response to a range of scenarios, based on variations of market, economic and other operating environment conditions. Stress tests are performed for both internal and regulatory purposes and serve an important role in:

- *Understanding the risk profile of the Group/Bank/subsidiary:* By carrying out exceptional but plausible scenarios, management can identify the ways in which the Group/Bank/subsidiary will be affected should that event take place and measure the effects on the Income Statement and Balance Sheet.
- *The evaluation of the Group's capital adequacy in absorbing potential losses under stressed conditions:* This takes place in the context of the Group's Internal Capital Adequacy Assessment Process (ICAAP) – required by Article 73 of CRD IV.
- *The evaluation of the Group's strategy:* Senior management considers the stress test results against the approved business plans and determines whether any corrective actions need to be taken. Overall, stress testing allows senior management to determine whether the Group's exposures correspond to its risk appetite.
- *The establishment or revision of limits:* Stress test results, where applicable, are part of the risk management processes for the establishment or revision of limits across products, different market risk variables and portfolios.

The ultimate responsibility and ownership of the Group's stress testing policy rests with the BRC of the BoD. If the stress testing scenarios reveal vulnerability to a given set of risks, management should make recommendations to the BoD, through BRC, for remedial measures or actions. These may vary depending on the circumstances and include one or more of the following:

- Review the overall business strategy, risk appetite, capital and liquidity planning.
- Review limits.
- Use derivative instruments to partially or fully hedge the underlying exposures.
- Reduce underlying risk positions through risk mitigation strategies.
- Consider an increase in capital.
- Enhance contingency planning.

During 2015 the Bank performed its stress test exercise within the ICAAP process.

### **2.1.9 Stress Testing (continue)**

Under article 100 of the Directive 2013/36/EU of the European Parliament, competent authorities shall carry out supervisory stress tests at least annually on institutions they supervise. This supervisory task has also been conferred on the ECB, which shall carry out where appropriate in coordination with EBA, stress tests. In execution of its mandate, the ECB, in close cooperation with the national competent authorities, will run a stress-testing exercise in 2016, the results of which will be factored into its overall assessment within the SREP. The scope of this SSM SREP stress test will complement this year's EU-wide exercise conducted by the EBA. It will therefore address banking groups other than those SSM significant institutions taking part in the EBA exercise.

The ECB has notified the Group that it will participate in the SSM SREP stress test, which will be performed at the highest level of consolidation. The exercise will be based on the methodology of the EBA EU-wide exercise, amended to duly respect the principle of proportionality. This will be facilitated by an extensive use of materiality thresholds. The exercise, which started in February of 2016, is expected to conclude early in the third quarter of 2016.

### **2.1.10 ICAAP, Pillar II and Supervisory Review and Evaluation Process (SREP)**

#### **2.1.10.1 ICAAP**

The Group has resumed the preparation and submission to the ECB of the ICAAP report as from year 2014. The report was approved by the BoD and has been submitted to the ECB.

The Group also undertakes a quarterly review of its ICAAP results. The first such review took place as at 30 September 2015. During the quarterly review the Group's risk profile and risk management policies and processes are reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). The Bank currently runs a full ICAAP exercise with a reference date of 31 December 2015 which is expected to be completed in April 2016.

#### **2.1.10.2 Pillar II and SREP**

The ECB, as part of its supervisory role, has been conducting the Supervisory Review and Evaluation Process and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things, the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of the SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. Additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time.

Following the completion of the SREP for year 2015, the ECB notified the Group of the revised minimum required CET1 ratio. The revised Pillar II CET1 capital requirement was determined by the ECB to be at 3,75%, resulting in a total minimum CET1 of 11,75%. The Group's capital position as at 31 December 2015 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group.

During 2015, an onsite inspection on credit quality was also performed by the ECB with a reference date of 31 December 2014, and its scope included the review and assessment of the Group's non-performing and restructured but performing exposures. The onsite inspection and related recommendation letter stated that, on the basis of a modified set of assumptions there was, in the ECB's view, a provision-related adjustment of around €300 million for the judgemental (i.e. specifically assessed) portfolio and around €700 million for the statistical (i.e. collectively assessed) portfolio, mostly relating to the recovery value of real estate collateral.

#### **2.1.10.2 Pillar II and SREP (continued)**

Following the on-going regulatory dialogue with the ECB regarding the SREP, the Group decided to reassess its provisioning assumptions, estimates and methodologies, within the parameters of International Financial Reporting Standards (IFRS). Consequently, the Group proceeded with certain amendments to the assumptions in its provisioning methodologies. These changes relate to extending significantly the recovery periods and applying additional realisation discounts on the most stressed non-performing portfolios, with both changes being a function of the Group's strategy for recovering delinquent exposures. In changing its provisioning assumptions, the Group has considered its strategy for managing problem loans, as well as other available evidence, reflecting an increased level of conservatism within an acceptable range. This resulted in an elevated provisioning charge for 2015, totalling €959 million (2014: €770 million). The Group considers that the assumption amendments significantly bridged the regulatory dialogue with the ECB and boosted the Group's 90+ DPD provisioning coverage to 48% at 31 December 2015 (2014: 41%).

Following the completion of the SREP dialogue and onsite inspection process, the ECB requested the submission of a multi-year capital plan to demonstrate that the level of capital held by the Group is sufficient.

The capital plan was submitted to the ECB on 26 February 2016. The Group's CET1 ratio remains higher than the minimum required ratio of 11,75% relating to the Pillar II capital requirement, providing a loss-absorbing buffer to the Group.

## **2.2 Risk Management Functions**

### **2.2.1 Credit Risk Management**

The role of credit risk management is critical, especially given the current environment in which the Group operates.

There are various functions involved in the management of credit risk, including systems used to measure and assess customer risk, credit approval limits and structure, lending criteria, monitoring of customer advances and methods of mitigating risk.

#### **2.2.1.1 Measurement and Assessment - Systems**

The effective management of the Group's credit risk is achieved through a combination of highly trained and specialised staff and appropriate credit risk assessment systems. The Bank aims to continuously upgrade its systems and models used in assessing the creditworthiness of Group customers. This is the responsibility of the Credit Risk Systems and Analytics (CRSA) department.

#### **Credit Scoring Systems**

##### *Retail-SAS Credit Scoring for Banking*

The CRSA department is responsible for the existing credit scoring systems for new customers and the behavioural scoring systems for existing customers in the Retail banking area.

In relation to lending to existing customers, the Bank uses, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears.

The Bank currently maintains and monitors a behavioural credit scoring system for Retail customers with five scorecards (customer level, mortgage loans, fixed term loans, cheque accounts and credit cards).

#### 2.2.1.1 Measurement and Assessment - Systems (continued)

##### *SMEs and Corporates (Credit Rating Models – Moody's Risk Analyst)*

Moody's Risk Analyst is a system used to set the basis for consistent and accurate credit risk analysis on commercial borrowers by collecting, analysing and storing financial statement and qualitative/judgmental data.

This credit scoring system calculates the following customer ratings/scores:

- (a) **The *financial index*** (based on *Moody's Risk Analyst*): The assessment of the financial position of the customers is performed based on recent audited financial statements, assessing performance with respect to operational efficiency, liquidity, debt service and capital structure. This index is used for assessing financial position/credit worthiness of business/corporate customers.
- (b) **The *borrower rating***: The assessment of the customers' credit worthiness is performed taking into account the financial index, the account behaviour with the Bank, the directors'/guarantors' account behaviour, the management of the enterprise and sectoral risks, as well as the liquidity and capital structure of the business.
- (c) **The *transaction rating***: An overall assessment of the customer is performed taking into account the customer's financial index, their borrower rating, as well as the collaterals/security gap of the Bank. This module (facility structure module) will support the creation of loss given default, exposure at default and expected loss in compliance with the Basel III internal-ratings based approach. The facility structuring module component that calculates the transaction rating is currently under review and is expected to be utilised in the near future.

#### 2.2.1.2 Credit Risk Policy

The Credit Risk Policy (CRP) department develops policies necessary to address the credit risk in the Bank. These policies are reviewed and updated at least annually or earlier if deemed necessary to reflect any changes in the Group's risk appetite and strategy and the work environment/economy.

The Group has implemented prudent policies and a proactive approach for the monitoring of credit risk. In addition, through the establishment of the Restructuring and Recoveries Division (RRD), the Group has strengthened the management and recovery of its delinquent loans, especially the large corporate exposures.

The key elements of the Group's Credit Risk Policy and processes are:

- (a) A clear and separate organisational responsibility for the management of credit risk for the Group as follows:
  - Credit origination is the responsibility of the relevant business division.
  - Credit appraisal is the responsibility of the Credit Appraisal Department (CAD) which is independent of the relevant business divisions and is under the supervision of GCRO.
  - The monitoring of the quality of the Group's credit portfolio and the implementation of the Group's provisioning policy are the responsibility of the Credit Risk Reporting and Control Department (CRRCD).
- (b) The implementation of prudent credit risk assessments with a primary focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. Furthermore, strict credit criteria (such as restricted/high risk sectors of the economy and ratios such as Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to annual debt service, interest rate cover, gearing and total leverage) for all lending segments as determined by the CRP are followed. This is combined with the assessment of a customer's creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department.
- (c) An increase in the frequency of the review of credit approval and concentration limits.
- (d) Delegation of credit approving powers to allow for credit risk assessment by personnel of the appropriate experience and seniority.

### 2.2.1.3 Credit Approval Limits and Structure for Loans and Advances to Customers

The structure and general rules of the credit approval limits are documented in the Bank's lending policy and the specific limits granted to each approving authority are communicated through circulars issued by the CRP department.

Approval limits are reviewed at least annually. The review process includes a consideration of the following factors:

- The quality of the credit facility applications.
- The quality of the customer portfolio per unit/division.
- The inflow of accounts from the different units/divisions to the RRD.
- The corporate level targets on quality of advances and new lending.

The structure of the limits takes into account:

- The type and size of each credit facility.
- The type-quality and value of the collateral.
- The security gap.
- The results of the credit scoring system for private individuals or the borrower rating for legal entities as calculated by Risk Analyst.

#### *Basic Credit Criteria*

The Group's primary lending criterion is the borrower's repayment ability. The Group places paramount importance on the assessment of a prospective borrower's ability to meet repayment schedules.

To support its lending activity the Group relies on appropriate collateral. The Group requires a first charge on collateral and takes a second charge only in exceptional circumstances, such as where the Group's primary collateral is taken in some other way and the second charge provides additional comfort. Generally, the Group requires a review of the collateral held if the borrower makes a request for a new facility, an application for restructuring of existing facilities or during the annual review. Additional criteria include the loan-to-value ratio, which may have restrictions imposed by the CBC, the term of the loan and the age of the borrower in case of private individuals.

#### *Efficient management, monitoring and control of customer advances*

Credit Risk Management is responsible to manage credit risk at all levels in the Bank. To that effect, various policies, procedures and processes are in place in order to maintain the Bank's credit risk exposure within acceptable parameters.

- *Collateral revaluations:* The Credit Risk Control Unit (CRCU) produces a comprehensive report on a quarterly basis of all mortgaged properties that require revaluation, broken down per unit and per banker. This report is communicated to the responsible line directors in order to take necessary actions to minimise the number of mortgaged property revaluations that are overdue.
- *Borrowers' audited financial statements:* CRCU monitors the submission of borrowers' audited financial statements on a quarterly basis by preparing an ageing analysis report of all pending financial statements. This report is communicated to the line directors so that the appropriate corrective measures are taken.
- *Sanctioning Limits:* The Internal Audit department conducts, on a periodic basis, compliance audits in order to determine that credit activities and in particular approval authorities are in compliance with the Bank's credit policies and procedures and to ensure that approved credits are authorised within the established guidelines and limits.
- *Concentration:* The Credit Reporting Unit (CRU) actively monitors on a monthly basis the concentration limits set and reports these to the senior management through the monthly Risk Report.
- *New products/services:* the Bank's products and services have an inherent credit risk, therefore Credit Risk Management is in close cooperation with other departments (e.g. Retail) and examines all new, expanded or modified products and services from a credit risk perspective; that is, whether the new product satisfies the Bank's risk appetite statement, its characteristics are according to the credit policy and its financial analysis includes all related risks.

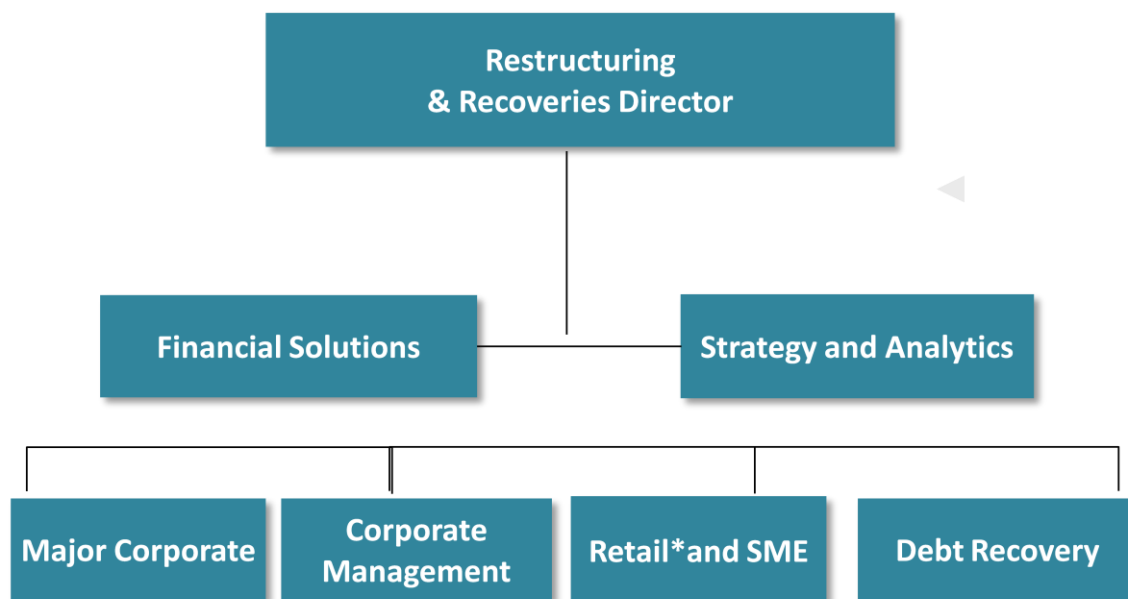
### 2.2.1.3 Credit Approval Limits and Structure for Loans and Advances to customers (continued)

*Efficient management, monitoring and control of customer advances (continued)*

- *Portfolio Quality Indicators/Key Performance Indicators:* Monitoring closely the quality/performance of the Bank's client portfolio is of great importance. Sound credit monitoring practices can help the Bank detect early signs of credit deterioration and thus take promptly remedial action to minimise losses. Monitoring is done both on a single loan/customer level and on an overall portfolio level.

The ultimate objective of the efficient management of the Group's credit portfolio is to enable prompt corrective action as soon as pre-arrears/arrears/irregularities appear on customer debit accounts, so as to restrict loan impairment. The establishment of the RRD in 2014, as part of the new organisational structure, aims to manage arrears across all portfolios. The RRD is responsible for the managing of problematic loans in Cyprus with a dedicated workforce close to 500 people. Since its establishment, RRD has restructured a significant number of loans and has put in place mechanisms to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the collections call centre, which applies specific contact strategies and the retail arrears management unit which provides restructuring solutions to viable customers. Business support centres have been set up to help address SME delinquent clients whereas the major corporate and mid corporate units of RRD are focused entirely on the larger customers.

#### RRD Structure



\*Collection and restructuring services are offered to Retail network via the Collection Call Center (CCC) and the Retail Arrears Management Department (RAM).

#### **2.2.1.4 Risk Identification, Measurement, Control and Reporting for Loans and Advances to Customers**

The Group has established methodologies and techniques for risk identification, measurement and reporting of credit risk. These methodologies are revised and modified whenever deemed necessary to reflect changes in the financial environment and adjusted to be in line with the Group's overall strategy and its short and long term objectives.

##### *Monitoring of credit quality*

The monitoring of the quality of the credit portfolio is performed through an in-depth analysis of various quality indicators. These indicators are monitored on regular basis and, among others, include the following:

- Arrears/Excesses – monitored daily.
- Non-performing exposures – monitored daily.
- Restructuring activity – monitored daily.
- Restructuring performance.
- Sectoral analysis.
- Adequacy in provisions.
- Roll rates.

The daily monitoring of key quality indicators such as non-performing exposures and restructuring activity facilitates the identification of early warnings, which are reported to senior management for the necessary actions and corrective measures.

##### *Concentration risk*

A key aspect of credit risk is concentration risk, which is defined as the risk that arises from the uneven distribution of exposures to individual borrowers, specific industry or economic sectors, geographical regions, product types or currencies. High-levels of credit concentration require capital buffers. Therefore, the Group exercises effective management for this type of risk through limit setting (e.g. industry limits) and reporting.

#### **2.2.1.5 Credit Risk with Correspondent Banks and Countries**

The Market Risk (MR) department is responsible for the credit risk, with correspondent banks and countries. Counterparty Risk is discussed in Section 5.1 and Country risk is analysed below.

##### *Country Risk*

'Country Risk' refers to the possibility that sovereign borrowers of a particular country may be unable or unwilling to fulfil their foreign obligations for reasons beyond the usual risks which arise in relation to all lenders.

Factors such as official actions (e.g. nationalisation, currency controls, currency devaluation), economic and socio-political changes in the borrowing country (e.g. civil war, mass riots) or unpredictable events (e.g. national disaster) or external shocks such as international economic recession or rise in the price of oil as well as other potential events contribute to country risk.

Country risk affects the Group via the operation of its banking units in other countries and also via investments in other countries (money market placements, bonds, shares, derivatives, etc). In addition, the Group is indirectly affected by credit facilities provided to customers for their international operations.

In this respect, country risk is considered in the risk assessment of all exposures, both on-balance sheet and off-balance sheet.



#### 2.2.1.5 Credit Risk with Correspondent Banks and Countries (continued)

On a quarterly basis, the country exposures arising from the below transactions are aggregated, compared to country limits and presented to ALCO and BoD, through the BRC (As from 2016 this report will be submitted quarterly to the ALCO and semi-annually any violations of limits will be reported to the BoD through the BRC):

- *Treasury transactions*: relate to investments in bonds, money market placements, FX and derivative transactions.
- *Lending*: All loans given to or guaranteed by residents of a country are taken into account, except those loans where the customer also holds a deposit with the Bank with a clear right of set-off. In the case where a loan is granted to a resident of one country and the collateral is in another country, these loans are included as exposures to both countries.
- *Investments in branches/subsidiaries abroad*: relate to the carrying value of branch/subsidiary's net assets, plus any funding provided by the Bank to the branch/subsidiary.
- *Commercial transactions*: relate to letters of credit, letters of guarantee or other similar products.
- *Committed lines of credit* are also taken into account, where present.
- *Investment properties* of overseas operations.

Country limits are allocated following detailed assessment of the country risk. The MR department obtains adequate and reliable information on countries and effectively analyses and evaluates their risk. Such information is obtained from various international publications and from country reports of various organisations (such as Moody's, S&P and Fitch) and/or economic data published by the country's supervising authorities. Statistical information prepared by the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS) is also taken into account. Important factors taken into consideration are, among others, the official reserves of the country as well as its balance of payments, inflation and historic data in relation to servicing its external debt. Relevant information may also be obtained from correspondent banks, as well as from Bloomberg/Reuters.

In addition to the above, other factors are also taken into account before setting any limits, such as the:

- Strategy of the Group in respect of its international activities.
- Group's appetite for risk.
- Perceived business opportunities in a country.
- Risk/reward ratio of an investment.
- The Group's capital base, in accordance with maximum percentages of the approved model (based on Moody's country risk rating).

There is one country limit, at Group level, which is allocated to the various units of the Group and also divided in sub-limits. The country sub-limits for Treasury transactions (excluding countries where the Bank is operational) are allocated based on the CET1 capital of the Bank and the country's credit rating. All limits are reviewed at regular intervals (at least once per year) and approved by the BRC. Moreover, all policy documents relating to country and counterparty risk are approved by the BRC at least once a year.

In addition, the BoD is responsible for ensuring that any approved business decisions regarding the Group's international operations have taken into account country risk considerations and they are in line with the Group's strategy and risk appetite.

MR department monitors the Treasury country limits on a daily basis through its risk officers at the various treasury units of the Group. Any excesses are reported to GCRO, ALCO and/or BRC, depending on the size of the violation. The allocation of Group limits to the various treasury units is done based on their needs and their revised counterparty limits. The remaining limits are allocated to Cyprus.

GCRO and Group CEO may reduce the limits already approved by the BoD if market conditions deteriorate.



#### 2.2.1.6 Policies for Credit Risk Mitigation

Credit risk mitigation is implemented through a number of policies, procedures, guidelines and circulars, such as:

- *Lending Policy*: the main/core policy of the Group which includes collateral, customer and facility types, lending criteria, repayment ability calculation and loan-to-value rules. A Deviations Policy has been incorporated in the Bank's Lending Policy.
- *Concentration Risk Policy*: covers sectoral, geographical, counterparty, currency, collateral, funding source and derivative concentration. Regarding collateral, limits are imposed on shares/marketable securities and specialised assets (properties or assets that can be used for a specific purpose or serve a particular function, such as petrol stations, shopping malls, hospitals, farms, hotels, aircraft, ship vessels etc).
- *Dangerous/prohibited sectors*: provides guidelines on which sectors/customer types are considered high risk and are approved by exception at higher committee levels.
- *Sanctioning limits*: details of approving authorities and related credit limits as well as parameters for approval.
- *New loan origination and revision of existing facilities*: based on the relevant CBC directives.
- *Restructuring of private individuals and legal entities*: detailed guidelines on the restructuring process for all customer types such as definitions of cooperative/viable customers, approval process, evaluation criteria, restructuring solutions/packages, required information to be collected.
- *Valuation and monitoring of collaterals*: for each collateral type, the relevant guidelines are given on when to value/revalue as well on the recoverable amount based on CBC directives.
- *Monitoring policy*: On-going active monitoring is an integral part of Credit Risk Management and is applied in policies, procedures, and to promote efficiency and quality.

#### 2.2.2 Market Risk Management

Market risk is the risk of loss in on and off-balance sheet positions from adverse changes in market prices namely from changes in interest rates, exchange rates and security prices.

MR department reports to GCRO and is responsible for measuring and monitoring the following risks at Group level:

- Interest rate risk.
- Currency risk.
- Liquidity risk.
- Credit risk with correspondent banks (Section 2.2.1.5).
- Country risk (Section 2.2.1.5).
- Security Price risk (Bonds and Equities).
- Properties risk.
- Commodities risk<sup>2</sup>.

The monitoring of these risks at local banking units is carried out by the relevant officers in the various countries in which the Group operates. The Group centralises the management of the above risks for better efficiency and control.

The Group has a very low appetite for market risk. The ALCO recommends the policy and limits for the management of the risks stated above, which are then approved by the BoD through the BRC.

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<sup>2</sup> BOC Group does not currently have any such exposures.

### **2.2.2.1 Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets, liabilities and off balance sheet items.

In order to control the interest rate risk, there are limits on the maximum reduction of net interest income of each banking unit that can take place each year, over the three years after the reporting date. There are different limits for Euro and foreign currencies. Limits are set as a percentage of the Group capital and as a percentage of the Group net interest income (when positive) and are allocated to the various banking units. In the case of Cyprus, there are different limits for Euro and foreign currencies. Small limits have also been set for open interest rate positions in the over three-year period after the reporting date.

MR department also measures the impact of a 2% change in interest rates on the economic value of the Group as per the CBC guidelines. ALCO has set a maximum limit for this change equal to 10% of Group CET1 capital compared to the 20% regulatory maximum ratio. The economic value is also calculated for the various units of the Group on a standalone basis. The economic value of each Group unit is divided to the amount of their Risk Weighted Assets and/or to the amount of their capital (where it exists). This analysis is presented in Section 10.

As at 31 December 2015, the total economic value effect for a 200 basis points decrease in the yield curves in all currencies was minus €13,4 million (0,49% of CET1 capital) (2014: positive €23,6 million (0,74% of CET1 capital)).

The 2% change in interest rates on the economic value of the Group is within the ALCO approved limit of 10%. On an individual basis all units are within the desired ratio of 10%. For the foreign subsidiaries (BOC UK and Channel Islands) the change in economic value is depicted both as a percentage on 8% of RWA and on their own capital.

#### *Interest Rate Risk Management*

The nature of interest rate risk as well as the impact from an upward and downward change in interest rates is covered in Section 10.

Interest rate risk is managed centrally at Group level in conjunction with local Treasuries. Corrective actions include:

- (a) on balance sheet solutions, including among others purchase of fixed rate assets, introduction of new customer accounts or loans with the desired characteristics, and
- (b) the use of derivatives e.g. interest rate swaps.

In addition, if an open fixed rate exposure exists, Treasury evaluates whether it can be used as part of its structural hedging portfolio (assets used to hedge liabilities with low interest rates which are inelastic to market rate changes).

The Bank applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Bank also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. Every month tests are carried out to ensure that accounting hedges continue to be effective.

For cash flow hedges and fair value hedges that have been designated for hedge accounting in accordance with IAS 39, effectiveness is established both prospectively and retrospectively as per the requirements of IFRS.

### 2.2.2.2 Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to limit the risk of loss from adverse fluctuations in exchange rates, overall open currency position limits for each unit of the Group, as well as Group limits, have been set as presented in the table below. These limits are well within the maximum permissible regulatory limits.

	<b>Intraday</b>	<b>Overnight</b>
<b>2015</b>	<b>€ million</b>	<b>€ million</b>
Cyprus	20	20 (10 per currency)
United Kingdom	3	1,5
Romanian branch and Romania Leasing	1	0,5
<b>Total</b>	<b>24</b>	<b>22</b>

<b>2014</b>		
Cyprus	20	20 (10 per currency)
United Kingdom	3	1,5
Uniastrum	8	4
Romanian branch and Romania Leasing	1	0,5
<b>Total</b>	<b>32</b>	<b>26</b>

Each local market risk officer is responsible for monitoring both their intraday and overnight Foreign Exchange (FX) position limits. Any violations are reported daily to the MR department, which monitors compliance with Group limits. In Cyprus, the MR department conducts near real time and end of day checks of open FX positions (through a designated specialised system) to monitor adherence to FX position limits.

Value at Risk (VaR) on the FX open position is also calculated. Due to the fact that there is no FX Trading Book, VaR is only calculated on a monthly basis.

## 2.2.2.2 Currency Risk (continued)

### *Currency Risk Management*

The table below sets out the Group's currency risk resulting from its FX open positions as at 31 December, assuming reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations:

	<b>Change in foreign exchange rate</b>	<b>Impact on loss after tax</b>	<b>Impact on equity</b>
<b>2015</b>	<b>%</b>	<b>€000</b>	<b>€000</b>
US Dollar	<b>+10</b>	<b>1.753</b>	<b>-</b>
Russian Rouble	<b>+40</b>	<b>5.819</b>	<b>78.573</b>
Romanian Lei	<b>+10</b>	<b>1</b>	<b>3.634</b>
Swiss Franc	<b>+20</b>	<b>9.344</b>	<b>-</b>
British Pound	<b>+10</b>	<b>515</b>	<b>(18.304)</b>
Japanese Yen	<b>+10</b>	<b>490</b>	<b>-</b>
Other currencies	<b>+10</b>	<b>111</b>	<b>-</b>

US Dollar	<b>-10</b>	<b>(1.434)</b>	<b>-</b>
Russian Rouble	<b>-40</b>	<b>(2.494)</b>	<b>(33.674)</b>
Romanian Lei	<b>-10</b>	<b>(1)</b>	<b>(2.974)</b>
Swiss Franc	<b>-20</b>	<b>(6.229)</b>	<b>-</b>
British Pound	<b>-10</b>	<b>(422)</b>	<b>14.976</b>
Japanese Yen	<b>-10</b>	<b>(401)</b>	<b>-</b>
Other currencies	<b>-10</b>	<b>(91)</b>	<b>-</b>

## 2.2.2.2 Currency Risk (continued)

### Currency Risk Management (continued)

	Change in foreign exchange rate	Impact on loss after tax	Impact on equity
2014	%	€000	€000
US Dollar	+10	9.717	(11.664)
Russian Rouble	+40	(1.065)	(11.952)
Romanian Lei	+10	(2)	4.165
Swiss Franc	+20	6.506	-
British Pound	+10	1.904	(16.110)
Japanese Yen	+10	854	-
Other currencies	+10	65	-
US Dollar	-10	(7.950)	9.543
Russian Rouble	-40	456	5.122
Romanian Lei	-10	2	(3.408)
Swiss Franc	-20	(4.337)	-
British Pound	-10	(1.558)	13.181
Japanese Yen	-10	(699)	-
Other currencies	-10	(53)	-

It is noted that the impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries, whose functional currency is not the euro. The net assets are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

#### *Policies for Hedging and Mitigating Currency Risk*

The Group aims to minimise currency risk through hedging. Only minimal open positions are allowed for currency risk.

The Bank mitigates currency risk using hedge instruments available in the market. These hedge instruments are evaluated and monitored by market risk.

The currency risk for the Bank arises mainly from:

- Customer driven transactions.
- The net assets of the foreign subsidiaries and branches of the Group.
- Provisions of the foreign currency loan book.

All customer driven transactions are immediately hedged by Institutional Wealth Management (IWM) by entering into FX deals with other banks. The currency risk arising from the net assets of the foreign subsidiaries and branches of the Group is also hedged on a monthly basis unless:

1. ALCO considers that the cost of hedging is not acceptable (compared to the underlying risk), or
2. There is no liquidity in the market for the specific currency pair.

### 2.2.2.3 Liquidity Risk and Funding

Liquidity risk is defined as the risk that the Group is unable to fully or promptly meet its current and future payment obligations and potential payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount to fully and promptly satisfy its obligations.

The Group's liquidity management strategy covers both its foreign currency operations as well as its local currency operations. Moreover it also covers ways to monitor/control the liquidity of its overseas branches/subsidiaries.

#### *Responsibility for Liquidity Management*

The BoD approves the strategy and significant policies related to the management of liquidity. The BoD ensures that senior management takes the steps necessary to monitor and control liquidity risk and provides adequate reporting regarding liquidity.

The BoD reviews the Liquidity Policy Statement at least annually to take account of changing operating circumstances. Every month, the MR department submits the liquidity reports of all banking units of the Group to the BRC. While the BoD has the ultimate responsibility for liquidity management, it has appointed ALCO to ensure the timely and effective implementation of the liquidity policy.

Local ALCOs have the responsibility for ensuring that they comply with local regulatory liquidity guidelines, any internal requirements and Group liquidity policies. At its monthly meetings, ALCO reviews the liquidity reports submitted from all Group banking entities and decides on specific actions with respect to Group liquidity.

The Treasurer of each banking unit has the responsibility for the day-to-day management of the liquidity position of its unit, with the ultimate aim to ensure that there is sufficient liquidity to meet obligations as they fall due and that they comply with all regulatory and Group ratios/guidelines. The local Treasurers have dual reporting to local management and to the Group Treasurer.

Group Treasury coordinates and has executive responsibility for liquidity management across the Group and implements ALCO decisions with respect to liquidity. Group Treasury is also responsible for the liquidity management both at Group level and at the level of each individual unit. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Group's liquidity position, such as the issuance of covered bonds, which can be used as collateral in refinancing operations of the ECB.

The MR department is responsible for monitoring compliance with regulatory and internal limits and policy guidelines.

Any violations of limits are promptly reported to the MR department who in turn reports them to the:

- Group CEO.
- Finance Director.
- GCRO.
- Group Treasurer.

All regulatory limit violations with the recommended remedy are reported to the ALCO and BRC.

Group Internal Audit and Local Internal Audit units are responsible to assess and report on the:

- Appropriateness, efficiency and effectiveness of the internal control environment in relation to the management of liquidity.
- Appropriateness and adequacy of procedures in place to ensure compliance with applicable laws and regulations.
- Compliance with Group and local policies and procedures.

The Finance Department of each unit is responsible for the preparation of regulatory liquidity reports for each unit.

### 2.2.2.3 Liquidity Risk and Funding (continued)

The Group's liquidity policy is designed to avoid reaching a crisis point. However, in case a liquidity or funding crisis arises, the Bank will address them, as analysed in the Contingency Funding Plan. A number of internal and regulatory ratios are in place to monitor Liquidity and these are further analysed in the Liquidity Policy Statement.

In 2015, an Internal Liquidity Adequacy Assessment Process (ILAAP) took place for 2014, which was submitted to the regulators in May 2015. The ILAAP for 2015 will be submitted to the regulators in April 2016 following the same procedure as last year.

Regarding the Group's liquidity and funding strategy:

- The Bank is stepping up its marketing efforts to attract deposits and to normalise its funding structure.
- The Bank has continuously been monitoring the market and has taken all necessary actions to be ready to access the wholesale market once conditions allow.
- The Bank aims to provide lending to promising sectors of the domestic economy that will support and diversify further the economic activity.
- The Group continues its deleveraging efforts and disposal of non-core assets.
- The Group continues the efforts for the management of problematic loans.

The Group liquidity ratio<sup>3</sup> was as follows:

<b>Group Liquidity ratio</b>	<b>2015 %</b>	<b>2014 %</b>
31 December	<b>18,25</b>	20,97
Average ratio <sup>4</sup>	<b>18,31</b>	15,27
Highest ratio	<b>21,62</b>	20,97
Lowest ratio	<b>15,64</b>	12,11

The minimum liquidity ratios for operations in Cyprus are set at the levels required by the CBC: 20% for Euro and 70% for foreign currencies. It is also noted that in the calculation of the above ratios, as well as for CBC regulatory reports, Emergency Liquidity Assistance (ELA) is treated as a long term liability. The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus.

Despite the recent crisis and the liquidity stress the Group, under various actions (i.e. deleveraging, disposal of non-core assets) that have taken place during 2015, improved its liquidity position.

As at 31 December 2015, the Group had available liquids<sup>5</sup> of €1,89 billion compared to €1,56 billion at the end of 2014. The main events that contributed to the increase of cash were the increase in deposits and customer flows in general, the early repayment of a Cyprus Government Bond<sup>6</sup> (Capital Injection Bond) and the sale of Marfin Diversified Fund and the deleveraging of non-core business, primarily Romania. It is noted that during 2015, reliance on CBC funding was reduced significantly. As at 31 December 2015, the funding from ELA amounted to €3,8 billion (31 December 2014: €7,4 billion) and as at the date of this Report it was further reduced to €3,3 billion.

<sup>3</sup> Definition of Group liquidity ratio = cash, short term bank deposits, liquid debt securities and equities available for immediate sale over total liabilities falling due within the next twelve months (all deposits are included irrespective of maturity; other assets as well as customer loans are ignored). The ratio is calculated on a monthly basis.

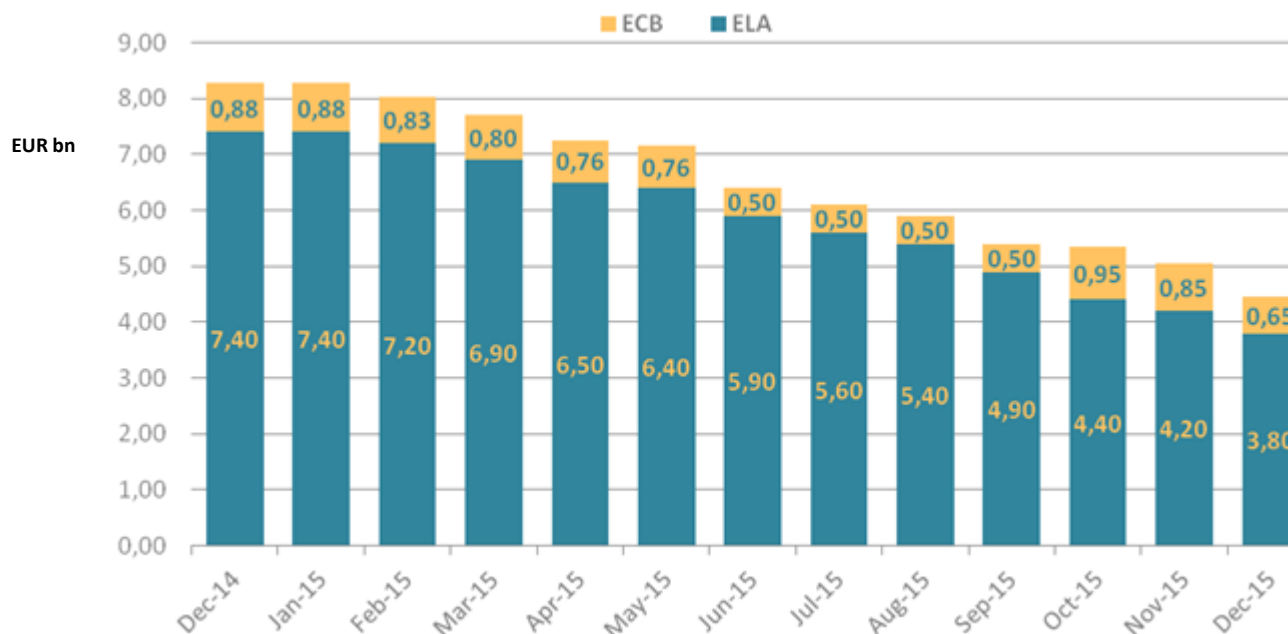
<sup>4</sup> Average ratio represents the average of the end of month ratios for the whole year.

<sup>5</sup> Available liquids comprise cash, balances at CBC (overnight and available on demand), interbank balances (overnight and available on demand) and other CBC and interbank balances with maturity up to 30 days.

<sup>6</sup> Recapitalisation bond of Laiki Bank transferred to the Bank in March 2013.

### 2.2.2.3 Liquidity Risk and Funding (continued)

The chart below presents the monthly evolution of ELA/ECB funding for the period from December 2014 until 31 December 2015:



In 2015, all restrictive measures on the movement of capital were removed. The last tranche of decree deposits amounting to €300 million was released in January 2015. Despite the removal of the restrictive measures and the release of decree deposits, deposits have been increasing and net inflows have been observed every month apart from March 2015, where marginal outflows were observed.

Despite the progress made in the Group's liquidity and funding position, the following challenges remain:

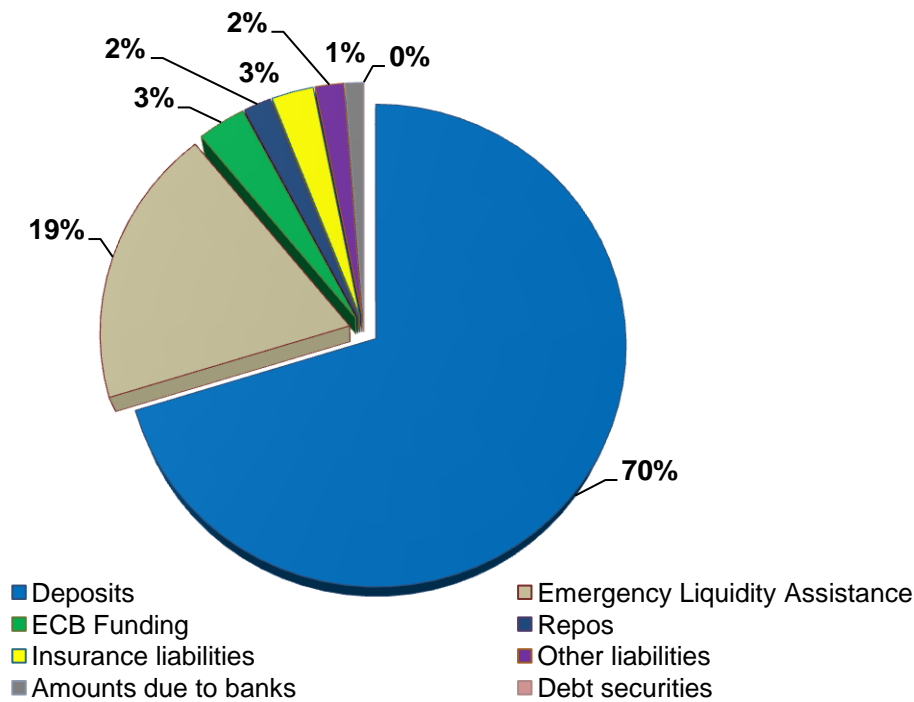
#### (i) Reliance on emergency liquidity and lack of diversification of funding sources

As presented in the chart below, as at 31 December 2015 the Group's liabilities comprised about 70% customer deposits (2014: 54%), 3% ECB funding (2014: 4%) and 19% ELA (2014: 32%). The level of central bank funding as at 31 December 2015 amounted to €4,45 billion (2014: €8,3 billion), comprising €0,65 billion of ECB funding (2014: €0,9 billion) and €3,8 billion of ELA funding (2014: €7,4 billion). The ECB funding of €0,65 billion (2014: €0,9 billion) consists of €0,15 billion funding from weekly monetary policy operations (2014: €0,38 billion) and €0,5 billion from targeted-long term refinancing operations (TLTRO) (2014: €0,5 billion). The TLTRO matures in 2018.

The CBC regulatory ratios for BOC (Cyprus) are in violation and are expected to continue at least, until the ELA is fully repaid. The CBC has been notified of this fact. The full repayment of ELA is an important priority and key objective of the Bank and therefore the Bank uses excess liquidity to repay ELA and therefore regulatory liquidity limits continue to be in breach.



2.2.2.3 Liquidity Risk and Funding (continued)



### 2.2.2.3 Liquidity Risk and Funding (continued)

Violation of regulatory ratios:

<b>CYPRUS</b>	<b>Minimum Regulatory Ratios</b>	<b>Ratio</b>	<b>Surplus/ (Deficit)</b>
<b>2015</b>			<b>€000</b>
EUR Liquidity Mismatch ratio: 0-7 days	<b>-10%</b>	<b>-31,70%</b>	<b>(2.341.287)</b>
Liquidity Mismatch ratio: 0-30 days	<b>-25%</b>	<b>-41,34%</b>	<b>(1.762.693)</b>
Stock Liquidity ratio	<b>20%</b>	<b>11,91%</b>	<b>(890.999)</b>
Foreign Currency Stock Liquidity ratio	<b>70%</b>	<b>35,51%</b>	<b>(772.005)</b>

<b>2014</b>			
EUR Liquidity Mismatch ratio: 0-7 days	-10%	-29,17%	(1.779.702)
Liquidity Mismatch ratio: 0-30 days	-25%	-41,10%	(1.494.470)
Stock Liquidity ratio	20%	15,26%	(449.060)
Foreign Currency Stock Liquidity ratio	70%	26,25%	(982.114)

The other banking units of the Group comply with their respective regulatory ratios. Since November 2015, the Romanian Branch does not have to comply with any local regulatory liquidity requirements. In 2015, the Channel Islands and UK liquidity regulatory requirements changed as presented in the tables below.

<b>CHANNEL ISLANDS</b>	<b>Minimum Regulatory Ratios</b>	<b>Ratio</b>	<b>Surplus/ (Deficit)</b>
<b>2015</b>			<b>GBP 000</b>
Liquidity Mismatch ratio: 0-8 days	<b>0%</b>	<b>43,82%</b>	<b>55.013</b>
Liquidity Mismatch ratio: 0-30 days	<b>-5%</b>	<b>59,62%</b>	<b>81.119</b>

<b>2014</b>			
Liquidity Mismatch ratio: 0-30 days	-20%	44,45%	86.282

### 2.2.2.3 Liquidity Risk and Funding (continued)

UK	Pillar 1 (80% of net outflows)	Pillar 2	Total Requirement	Liquid assets per LCR	Surplus/ Deficit
2015	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Prudential Regulation Authority UK (PRA LCR)	7.720	115.700	123.420	228.331	104.911

UK	ILG Eligible requirement	ILG Eligible liquidity buffer	Surplus/ (Deficit)	Surplus/ <sup>7</sup> (Deficit)
2014	GBP 000	GBP 000	GBP 000	GBP 000
<2 weeks	159.132	365.722	206.590	240.831
<3 months	159.132	365.722	206.590	234.433

Uniastrum Bank was disposed in September 2015.

UNIASTRUM BANK	Minimum Regulatory Ratios	Ratio	Surplus/ (Deficit)
2014			€000
N2 Ration Instant	15%	77,3%	83.573
N3 Ratio Current 30 days	50%	87,2%	65.317
N4 Ratio Long term>365 days	120%	74,7%	159.292

ROMANIA	<1 month	1-3 months	3-6 months	6-12 months	>12 months
2014					
Liquidity ratio - all currencies:					
Effective liquidity (€000)	257.088	232.168	232.691	237.475	308.770
Necessary liquidity (€000)	72.253	6	-	-	409.096
Liquidity ratio >100%	356%	3.843.742%	100%	100%	75%
Surplus/(deficit) over minimum (€000)	184.835	232.162	232.691	237.475	(100.326)

<sup>7</sup> Surplus/(Deficit): including surplus/(deficit) from SME, Government and Group deposits and bank placements

### 2.2.2.3 Liquidity Risk and Funding (continued)

In addition to regulatory liquidity ratios disclosed in Note 46 of the Consolidated Financial Statements for year 2015, the Group has to comply with the CRR Liquidity Coverage Ratio (LCR). It also monitors its position against the Basel QIS Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The CRR requires phased-in compliance with the LCR standard from 1 October 2015 with an initial minimum ratio of 60% increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. In October 2014, the European Commission published a final Delegated Act for the LCR. During 2015, the monthly LCR was calculated as per the CRR and also quarterly as per the Delegated Act (as part of the SREP Short Term Exercise). Starting from January 2016, the LCR is also calculated monthly based on the final published Delegated Act. Once the Delegated Act is enacted, the LCR will only be calculated under this Act.

In October 2014, the Basel Committee on Banking Supervision published a final standard for the NSFR with the minimum requirement to be introduced in January 2018 at 100%. The methodology for calculating the NSFR is based on an interpretation of the Basel standards published in October 2014 and includes a number of assumptions, which are subject to change prior to adoption by the European Commission through the CRR.

Based on the CRR and Basel QIS standards respectively, as at 31 December 2015, the Group had an estimated LCR of 76% (2014: 62%) and an estimated Basel QIS NSFR of 83% (2014: 72%). According to the LCR Delegated Act, as at 31 December 2015 the LCR ratio was 0%. Under the Delegated Act, the ELA funding is deducted from High Quality Liquid Assets, thus resulting in a zero ratio. It should be noted, however, that the Company considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment.

The CBC regulatory ratios for BOC (Cyprus) are in violation and are expected to continue at least until the ELA is fully repaid. The CBC has been notified of this fact. The full repayment of ELA is an important priority and key objective of the Bank and therefore the Bank uses excess liquidity to repay ELA and therefore regulatory liquidity limits continue to be in breach.

Cyprus has exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade, albeit on a rising trend. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This disruption may lead to higher borrowing costs for the Group. In addition, any weakening of the commitment to fiscal discipline and reform in the future might add to market pressures. The Group has proactively reduced its dependence on Eurosystem monetary operations in anticipation of the above risk materialising. The above change, is however expected to materially reduce the available ECB buffer. This buffer represented the amount that could be drawn from the ECB, based on the collateral pledged.

Although the Group has received no specific guarantees, management expects that it will continue to have access to the central bank liquidity facilities, in line with applicable rules. In this respect, the House of Representatives of Cyprus approved on 27 January 2014 the issuance of additional government guarantees of up to €2,9 billion. The Company expects that it will be able to make use of these guarantees, subject to approval by the Ministry of Finance.

Furthermore, in November 2014 the maturity of the Group's existing €1 billion government guaranteed bonds was extended for a further three years, until November 2017. It is further noted that the Group's approved Restructuring Plan included ELA funding throughout the Plan period.

### 2.2.2.3 Liquidity Risk and Funding (continued)

#### (ii) Lack of funding diversification, as seen in the pie chart above.

#### Impediments for the prompt transfer of funds between the parent entity and its subsidiaries

The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required for any capital repayment (including contractual payments upon maturity). The subsidiaries of the Bank, Bank of Cyprus UK Ltd and Bank of Cyprus (Channel Islands) Ltd cannot place funds with the Group in excess of maximum limits set by their respective regulators. Any new funding to subsidiaries requires approval from the CBC.

### 2.2.2.4 Securities Price Risk

#### Equity Securities Price Risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

The Group has an outstanding equities/funds portfolio in its books classified for accounting purposes as either Available-for-Sale (AFS) or Held-for-Trading (HFT). The policy is to manage the current portfolio with the intention to run it down. No new purchases are allowed without ALCO's approval. New equities may only be obtained from repossessions of collateral for loans. The equities' portfolio is managed by IWM.

The ALCO and BoD, through the BRC, monitor on a monthly basis the balance sheet value of this portfolio compared to its historic cost accompanied with any impairment charges and disposal information. The equities portfolio of the Bank is very small and the Bank is actively managing it down to zero.

Changes in the prices of equity securities that are classified as HFT affect the results of the Group, whereas changes in the value of equity securities classified as AFS affect the equity of the Group (unless impaired in which case they affect the results of the Group).

The table below shows the impact on the loss before tax and on equity of the Group from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on loss before tax	Impact on equity
2015	%	€000	€000
Cyprus Stock Exchange	+30	2.164	1.509
Athens Exchange	+50	-	83
Other Stock Exchanges and non-listed	+20	1.721	1.916
Cyprus Stock Exchange	-30	(2.298)	(1.376)
Athens Exchange	-50	(58)	(25)
Other Stock Exchanges and non-listed	-20	(1.768)	(1.869)

#### 2.2.2.4 Securities Price Risk (continued)

	Change in index	Impact on loss before tax	Impact on equity
<b>2014</b>		€000	€000
Cyprus Stock Exchange	+30	1.075	3.406
Athens Exchange	+35	-	100
Moscow Exchange	+35	-	258
Other Stock Exchanges and non-listed	+20	1.887	384
Cyprus Stock Exchange	-30	(1.609)	(2.872)
Athens Exchange	-35	(14)	(86)
Moscow Exchange	-35	(75)	(182)
Other Stock Exchanges and non-listed	-20	(1.887)	(384)

##### *Debt Securities Price Risk*

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers change and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2015 was Baa2 (2014: Ba3) for the whole bond portfolio. The average rating excluding the Cyprus Government bonds for 31 December 2015 was Aa2 (2014: Aa2).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of Group (if not impaired).

The table below indicates how the loss before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

	Impact on loss before tax	Impact on equity
<b>2015</b>	€000	€000
Change in market prices		
+5,5%	2.002	25.188
-5,5%	(2.002)	(25.188)
<b>2014</b>		
Change in market prices		
+4,5%	1.779	31.530
-4,5%	(1.779)	(31.530)

### **2.2.2.5 Property Risk**

The Bank's policy is not to increase its exposure in properties above the internal limit (KRI) set at 50% of the Group's CET1 capital. Sub limits on the various categories of properties can be set by the GCRO. Violation of these KRI limits will alert the ADC to take actions, where possible, to reduce exposure within limits.

In December 2015, the Group has changed its business model with respect to real estate assets acquired from customers as part of the Group's efforts to provide solutions to distressed borrowers and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, to a model that involves actively managing such properties with an intention to sell them. To execute its strategy, the Group has set up a dedicated Real Estate Management Unit (REMU). Following the establishment of REMU and certain other actions undertaken by the Group, the Group has assessed that for the majority of properties previously classified as investment properties, there has been a change in use and has therefore transferred such properties from investment properties to stock of property. The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. At 31 December 2015, the carrying value of the stock was €515,9 million or 18,8% of the Group's CET1 (2014: €12,7 million or 0,4% of Group's CET1).

The stock of property includes residential, offices and other commercial properties, manufacturing and industrial, hotels, land (fields and plots) and under construction properties. The stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €21.875 thousand.

### **2.2.2.6 Stress Testing**

The MR department performs additional stress tests beyond those referred to in Section 2.1.9, which include the following:

- (a) Monthly stress testing for interest rate risk (2% shock on net interest income and economic value).
- (b) Quarterly stress testing on items that are marked to market: impact on profit/loss and reserves is indicated from changes in interest rates and prices of bonds and equities.
- (c) Quarterly (starting in September 2015) and yearly stress test for the evaluation of ICAAP.
- (d) Quarterly and yearly stress test for the evaluation of ILAAP.
- (e) Liquidity stress testing on cash flows by both MR department (one month horizon) and Treasury (one and two month horizons).

## **2.2.3 Operational Risk Management**

### **2.2.3.1 Definition and Objectives**

Operational risk is defined as the risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes compliance and legal risk; however it excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Group acknowledges the importance of managing certain related risks, which are not included in this definition, such as reputational risks.

### 2.2.3.1 Definition and Objectives (continued)

As such, operational risk encompasses the following risks: conduct<sup>8</sup>, reputational<sup>9</sup>, legal<sup>10</sup>, compliance<sup>11</sup>, information security<sup>12</sup> and information technology, business continuity<sup>13</sup> and model risks<sup>14</sup>. Operational risk policies and procedures contribute to the management of these risks, which are also directly managed by specialised departments.

The primary mission of the Group Operational Risk Management Department (GORM) is to embed explicit and robust operational risk management practices into all areas of the business process from the initial design of the Bank's business strategy to the sale of services and products to its customers. This is achieved by implementing a sound, coherent and comprehensive framework for the identification, assessment, monitoring and control of operational risk within the Bank that improves the service provided to customers, the Bank's productivity and cost effectiveness and which protects shareholder value. Operational risk management also ensures that the level of operational risk faced by the Bank is consistent with the Board's overall risk appetite and corporate objectives.

The operational risk management framework strives to achieve the following specific objectives:

- Fostering awareness and understanding of operational risk among all staff and promoting a culture where staff are more conscious of risks and the joint avoidance of losses, in order to improve the understanding and influence of operational risk to the risk-reward relationship of the Bank's activities;
- Ensuring effective operational risk monitoring and reporting. Provide transparent reporting of operational risks and material exposure to losses, to management and provide all stakeholders with updates on implementation action plans and the risk profile of the Bank;
- Implementing a strong system of internal controls to ensure that operational incidents do not cause material damage to the Group's franchise and have a minimal impact on the Group's profitability and objectives;
- Improving productivity, efficiency and cost effectiveness, with an objective to improve customer service and protect shareholder value.

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<sup>8</sup> Conduct risk is defined as the risk of unexpected or undesirable behaviour by management, staff or other person identified with the bank, which results in an adverse impact for the customer and is focused on how the bank is managed and structured to ensure that it treats its customers fairly by having robust systems and controls, adequate skill, care and judgement.

<sup>9</sup> Reputational risk is defined as the risk arising from negative perception, on the part of the stakeholders, that can adversely affect the bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.

<sup>10</sup> Legal risk is defined as the possibility of the operations and conditions of the bank to be disrupted or adversely affected given lawsuits, adverse judgements or unenforceable contracts.

<sup>11</sup> Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities.

<sup>12</sup> Information Security Risk is defined as the risk arising from the loss of confidentiality, integrity and availability of information.

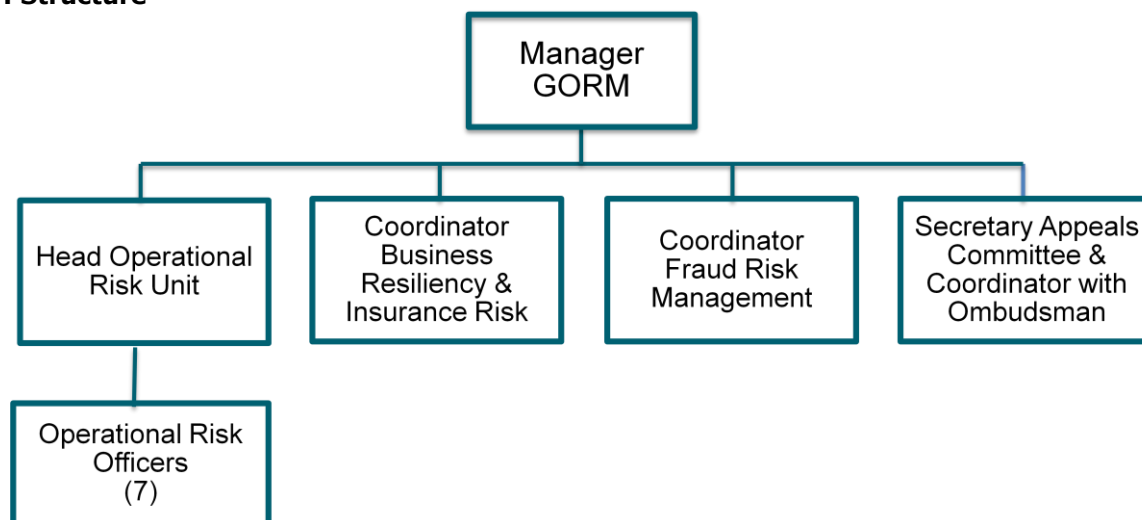
<sup>13</sup> Business Continuity risks refer to risks impacting the capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident.

<sup>14</sup> Model risk is the risk of loss resulting from using models to make decisions, in cases where financial models used to measure risks or value transactions do not perform the tasks or capture the risks they were designed to.



### 2.2.3.1 Definition and Objectives (continued)

#### GORM Structure



### 2.2.3.2 Management and Control of Operational Risk

GORM employs specialised tools and methodologies to identify, assess, mitigate and monitor operational risk within the Group. These specialised tools and methodologies assist operational risk management to address any control gaps and effectively report and monitor operational risk exposures. To this effect, the following are implemented:

#### ***Incident recording and analysis***

Data on operational risk events (actual and potential losses as well as near misses) is collected from all Group entities, with a threshold of €100 per actual/potential loss. An operational risk event is defined as any incident where through the failure or lack of a control, the Group could actually or potentially have incurred a loss. The definition includes circumstances whereby the Group could have incurred a loss, but in fact made a gain, as well as, incidents resulting in reputational or regulatory impact.

The data collected is categorised and analysed to facilitate the management of operational risks and, where possible, to prevent future losses through the use of specific mitigating actions. Within the year, increased emphasis has been placed on carrying out root-cause analysis of both operational risk incidents with a significant impact and repeated operational risk incidents with no material impact. This enables the identification of weaknesses or vulnerabilities and potential threats, which in turn supports the specification of actions to minimise the risk of similar incidents occurring in the future. In 2015, 151 loss events with gross loss over €1.000 were recorded, compared to 387 in 2014.

#### ***Risk Control Self-Assessment (RCSA)***

An RCSA methodology, redefined during the second half of 2014, is established and is in progress across the Bank. The methodology follows a three-phase process: (i) Preparation; (ii) Workshop and (iii) Reporting and Follow-up. It is a team exercise, which enables/empowers the business unit management and employees to: (i) identify the residual risks to the achievement of their objectives, (ii) Assess and manage high risk areas of the business processes, using a universal *Likelihood x Impact scale* that forms a central point of reference within the operational risk management framework, (iii) Self-evaluate the adequacy of controls and identify the lack of controls and (iv) develop and prioritize risk treatment action plans.

### **2.2.3.2 Management and Control of Operational Risk (continued)**

#### ***Risk Control Self-Assessment (RCSA)(continued)***

Based on the RCSA methodology, business owners are encouraged to place particular emphasis in identifying risks that arise from areas such as:

- Information security.
- Money laundering and know your customer.
- Internal and external fraud.
- Continuity of operations.
- Information technology risks.
- Reputational risks.
- Conduct risks.
- Outsourcing risks.
- Efficiency risks.

With primary input from the process of RCSA completion, GORM maintains a detailed risk register for the Bank, which forms an important component of the operational risk management analysis and reporting.

#### ***Key Risk Indicators (KRIs)***

A KRI is an operational or financial variable, which tracks the likelihood and/or impact of a particular operational risk. Hence a KRI serves as a metric, which may be used to monitor the level of particular operational risks. KRIs are similar to, and often coincide with, KPIs and Key Control Indicators. KRIs are established from a pool of business data/indicators considered useful for the purpose of risk tracking. These indicators are used for the ongoing monitoring of the Bank's operational risks at departmental level, and mitigating actions are initiated in the case KRI limit violations are observed. KRIs are reported regularly to the EXCO.

#### ***Risk-based Business Process Management***

Risk based Business Process Management involves the assessment of risks, the provision of opinions on the acceptability of the risks assessed and the recommendation of additional controls in relation to changes made in business processes, new products or services, outsourced activities and new projects/initiatives. GORM actively participates in the evaluation of new or amended procedures, new technology systems and other important decisions or developments, with an objective to facilitate and carry out the identification and assessment of any operational risks.

#### ***Business Resilience and Continuity Risk Management***

Business continuity risks are managed to ensure that the Bank has business resiliency and continuity plans in place to ensure it has the ability to operate on an ongoing basis and limit losses in the event of severe business disruption. To this effect, the IT Disaster Recovery (DR) plan is annually reviewed and tested. Procedures, mechanisms and specific provisions are currently underway and on-going towards completion of an Active - Active implementation of the DR plan, in order for the plan to be best suited to fulfil its objectives and scope.

#### ***Training and awareness***

Training is carried out throughout the Bank with the aim to promote risk culture and enhance awareness in relation to operational risks. As training and awareness regarding operational risk is one of the main objectives of the Operational Risk Management (ORM) Framework, training sessions have been planned within 2016, designed to offer training on ORM and Fraud to all personnel, so as to further enhance awareness and culture on operational risk management practices and imperatives.

#### ***Establishment of a network of operational risk management liaisons***

Operational risk liaisons act as the point of contact with the aim to enable the effective implementation of the various operational risk methodologies across the Bank, by liaising with their departmental and unit management. In local and overseas subsidiaries, operational risk management responsibilities are assigned to local risk managers.

#### **2.2.3.2 Management and Control of Operational Risk (continued)**

##### ***Insurance Coverage***

The Group maintains insurance coverage for important operational risks. Group insurance coverage includes, inter alia, the following insurance policies:

- Directors and Officers Liability Insurance
- Bankers' Blanket Bond, Computer Crime and Civil Liability Insurance

##### ***Major developments relating to Operational Risk Management during 2015***

During 2015, a number of structural changes took place regarding GORM. Fraud risk management was separated from the core ORM unit, so as to place appropriate focus on the said type of risk. A Coordinator for Fraud Risk Management was appointed, following an internal recruitment process. Furthermore, during 2015 major emphasis was placed in the development and customisations needed to the Operational Risk Management system, which has a go-live date of end of the first quarter of 2016. This automated ORM solution will enable integration of results from all ORM methodologies: linking risks, incidents and KRIs and allowing bank employees to be more effective in applying ORM methodologies in a uniform manner.

An adverse scenario analysis process was revised and detailed during 2015 to enable a more coherent approach to adverse scenario identification stemming from derived Key Risk Drivers (KRDs). As part of the process, a register of key/material risks (Key Risk Matrix) is maintained, that is updated on a quarterly basis, with input from senior management per Division. The main input to identify the key/material risks, are the results of the main methodologies by GORM: (i) RCSAs, (ii) Loss/Incident Recording and Analysis, (iii) KRIs and (iv) Risk-based business process management.

Regarding the operational risk loss incident recording and analysis process, this was further enhanced during 2015: (i) focus continued to be placed on root-cause analysis of recorded incidents and especially the increasing number of legal cases; (ii) increased focus was placed on recording and analysing IT-related and credit-related incidents.

During 2015, the management of insurance mitigation was also formalised by establishing an appropriate framework to improve the coordination and monitoring of relevant activities.

Regulatory changes that were put in effect during 2014-2015 entail increased reporting requirements, increased regulatory scrutiny, new software and procedure development. These give rise to additional operational risks in relation to data integrity, data aggregation as well as non-compliance with the new regulatory provisions. GORM is involved in the management of these risks as a matter of priority in collaboration with other control functions, including Group Compliance and Information Security.

#### **2.2.3.3 Capital Calculation for Operational Risk**

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk which was approved by the CBC.

#### **2.2.3.4 Reporting**

Internal operational risk reports are compiled on a monthly, quarterly and annual basis and are communicated to the EXCO and the BRC through the GCRO. These reports cover all major issues and results of operational risk activities.

## **2.3 Governance Arrangements**

### **2.3.1 Recruitment Policy**

One of the BoD's main responsibilities is to identify, evaluate and select candidates for the Board and ensure appropriate succession planning. The Nominations and Corporate Governance Committee is assigned the responsibility to review the qualifications of potential director candidates and make recommendations to the BoD in accordance with the Fitness and Probity policy approved by the BoD. The persons proposed for the appointment should have specialised skills and/or knowledge to enhance the collective knowledge of the BoD and must be able to commit the necessary time and effort to fulfil their responsibilities. Prior to the appointment, the Bank must comply with the Assessment of the Fitness and Probity Directive of 2014 and obtain the approval of the CBC.

Factors considered by the Nominations and Corporate Governance Committee in its review of potential candidates include:

- Specialised skills and/or knowledge in accounting, finance, banking, law, business administration or related subject.
- Integrity, honesty and the ability to generate public confidence.
- Demonstrated sound business judgment.
- Knowledge of financial matters including understanding financial statements and financial ratios.
- Knowledge of and experience with financial institutions.
- Risk management experience.
- The competencies and skills that the BoD considers each existing director to possess.

For the re-election of incumbent directors, the Nominations and Corporate Governance Committee should also consider the results of the most recent self-assessment of the BoD and the Chairperson's evaluation of the individual directors, the director's attendance record in meetings, participation in BoD activities and overall contribution to the functioning of the BoD.

### **2.3.2 Other Directorships**

The Nominations and Corporate Governance Committee considers amongst other whether a potential director is able to devote the requisite time and attention to the Bank's affairs, prior to the BoD's approval of the individual's appointment.

The CBC Assessment of Fitness and Probity of Directors and Managers Directive of 2014 determines that a director cannot hold more than one of the following combinations:

- One executive directorship with two non-executive directorships.
- Four non-executive directorships.

For the purposes of the above, the following shall count as a single directorship:

- Executive or non-executive directorships held within the same group.

According to the CBC Directive mentioned above, the CBC may, in exceptional cases and taking into consideration the nature and complexity of the business of the Group, authorise members of the BoD to hold one additional directorship.

### **2.3.2 Other Directorships (continued)**

Directorships in organisations which do not pursue predominantly commercial objectives shall not count for the purposes of the above guidelines.

The CBC granted permission to five of the directors to hold one additional non-executive directorship to the above. In 2015, the Chairman and Mr. Berggren have resigned from two outside directorships.

- Mr. Goldman holds 5 non-executive directorships.
- Mr. Ross holds 5 non-executive directorships.
- Mr. Spanos holds one executive and 3 non-executive directorships.

### **2.3.3 Diversity Policy**

The Group recognises the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, background, race and gender between directors. A balance of these differences will be considered when determining the optimum composition of the BoD. The BoD has approved a Diversity Policy which is publicised on the Group's website and has set out targets for enhancing the presence of the underrepresented gender on the BoD and deadlines for achieving these targets.

### **2.3.4 Risk Committee**

The BRC plays a key role in setting the risk appetite and strategy of the Group and ensuring compliance with risk management strategy, policies and regulations. The BRC is also responsible for the development of an internal risk management framework and its integration with the Bank's decision making process, covering the whole spectrum of the Bank's activities and units as well as subsidiaries.

The BRC comprises 4 non-executive directors (following the resignation of Mr. Strzhalkovskiy in May 2015) all of whom are independent. During 2015 the BRC held 17 meetings (2014: 6 meetings).

The Terms of Reference of the BRC are to:

- Advise the BoD on the Bank's overall current and future risk appetite and strategy.
- Assist the BoD in overseeing the effective implementation of the risk strategy by senior management.
- Review pricing of products and where prices do not properly reflect risk, present a remedy plan to the BoD.
- Examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.
- Submit proposals to the BoD and recommendations for corrective action whenever weaknesses are identified in implementing the risk strategy.
- Appraise the GCRO and the Information Security Officer and submit appraisals to the BoD.
- Approve sufficient resources and budget for the Bank's RMD and the Information Security function.
- Review and approve the organisational structure of the RMD.
- Assess and monitor the independence, adequacy and effectiveness of the RMD and the Information Security Function.
- Advise the BoD on the adequacy and effectiveness of the risk management framework and the information security framework, drawing on the reports of the AC, the RMD and external auditors.
- Advise the BoD on the adequacy, effectiveness and robustness of information and communications systems.
- Advise the BoD on the adequacy of the provisions and effectiveness of strategies and policies with respect to maintaining adequate internal capital and own funds to cover the risks of the Bank.
- Conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the BoD.

The appointment and removal of the GCRO and the Information Security Officer are recommended by the BRC and approved by the BoD.

### **2.3.5 Reporting and Control**

A description of the information flow on risk to the BoD is provided in Appendix III.

### 3. Own Funds

#### 3.1 Reconciliation of Regulatory Capital, on a Transitional Basis, with Shareholders' Equity per Consolidated Financial Statements

As explained in Section 1.3, the basis of consolidation for financial accounting purposes differs from that used for prudential purposes.

The following table provides a reconciliation between the balance sheet presented in Consolidated Financial Statements with the balance sheet prepared for prudential purposes.

	Ref <sup>15</sup>	2015	2014
		€000	€000
<b>Total equity per Group Consolidated Financial Statements</b>	<b>a</b>	<b>3.077.331</b>	<b>3.481.047</b>
Deconsolidation of insurance and other entities	<b>b</b>	(221.508)	(198.901)
Minority interest adjustment to comply with regulatory requirements		(22.376)	(22.723)
Intangible assets	<b>c</b>	(17.203)	(15.784)
Unrealised gains of AFS instruments		-	(2.132)
Regulatory adjustments (DTA and other items)		(17.989)	-
Reserves arising from revaluation of properties and other non CET1 eligible reserves, transferred to Tier 2		(50.483)	(50.552)
<b>Total Common Equity Tier 1 (CET 1)</b>		<b>2.747.772</b>	<b>3.190.955</b>
Additional Tier 1 capital		-	-
<b>Total Tier 1 capital</b>		<b>2.747.772</b>	<b>3.190.955</b>
<b>Tier 2</b>			
Property revaluation reserve and other unrealised gains		30.290	42.146
<b>Total Tier 2 capital</b>		<b>30.290</b>	<b>42.146</b>
<b>Total own funds</b>		<b>2.778.062</b>	<b>3.233.101</b>

<sup>15</sup> The references (a) to (c) refer to those in the reconciliation of balance sheets in Section 3.2

### 3.2 Reconciliation between the Balance Sheet presented in Consolidated Financial Statements with the Balance Sheet prepared for Regulatory Purposes

	Ref	Group balance sheet per financial statements	Deconsolidation of insurance/ other entities	Held for sale <sup>16</sup> reclassification in line-by-line consolidation	Balance sheet per regulatory scope of consolidation
2015		€000	€000	€000	€000
<b>Assets</b>					
Cash and balances with central banks		1.422.602	(6)	-	1.422.596
Loans and advances to banks		1.314.380	(16.698)	-	1.297.682
Derivative financial assets		14.023	-	-	14.023
Investments		588.255	(30.114)	-	558.141
Investments pledged as collateral		421.032	-	-	421.032
Loans and advances to customers		17.191.632	1.977	-	17.193.609
Life insurance business assets attributable to policyholders		475.403	(475.403)	-	-
Prepayments, accrued income and other assets		281.780	(58.926)	-	222.854
Stock of property		515.858	(7.712)	-	508.146
Property and equipment		264.333	(52.770)	22.335	233.898
Investment properties		34.628	(15.415)	-	19.213
Intangible assets	c	133.788	(116.585)	-	17.203
Investments in associates and joint ventures		107.753	(101.410)	-	6.343
Deferred tax assets		456.531	(5)	-	456.526
Non-current assets and disposal groups held for sale		48.503	(26.168)	(22.335)	-
Investments in Group undertakings		-	139.129	-	139.129
<b>Total assets</b>		<b>23.270.501</b>	<b>(760.106)</b>	<b>-</b>	<b>22.510.395</b>
<b>Liabilities</b>					
Deposits by banks		242.137	(813)	-	241.324
Funding from central banks		4.452.850	-	-	4.452.850
Repurchase agreements		368.151	-	-	368.151
Derivative financial liabilities		54.399	-	-	54.399
Customer deposits		14.180.681	73.876	-	14.254.557
Insurance liabilities		566.925	(566.925)	-	-
Accruals, deferred income and other liabilities		282.831	(15.223)	-	267.608
Debt securities in issue		712	-	-	712
Deferred tax liabilities		40.807	(19.812)	-	20.995
Non-current liabilities and disposal groups held for sale		3.677	(3.677)	-	-
<b>Total liabilities</b>		<b>20.193.170</b>	<b>(532.574)</b>	<b>-</b>	<b>19.660.596</b>
<b>Equity</b>					
Share capital		892.294		-	892.294
Share premium		552.618		-	552.618
Capital reduction reserve		1.952.486		-	1.952.486
Revaluation and other reserves		258.709	(133.263)	-	125.446
Accumulated losses		(601.152)	(88.245)	-	(689.397)
<b>Equity attributable to owners of the Company</b>	b	<b>3.054.955</b>	<b>(221.508)</b>	<b>-</b>	<b>2.833.447</b>
<b>Non-controlling interests</b>		22.376	(6.024)	-	16.352
<b>Total equity</b>	a	<b>3.077.331</b>	<b>(227.532)</b>	<b>-</b>	<b>2.849.799</b>
<b>Total liabilities and equity</b>		<b>23.270.501</b>	<b>(760.106)</b>	<b>-</b>	<b>22.510.395</b>

<sup>16</sup> Further information on non-current assets and disposal groups that were classified as held for sale as at 31 December 2015, is disclosed in Note 29 of the Consolidated Financial Statements for year 2015.

### 3.2 Reconciliation between the Balance Sheet presented in Consolidated Financial Statements with the Balance Sheet prepared for Regulatory Purposes (continued)

	Ref	Group balance sheet per financial statements	Deconsolidation of insurance/ other entities	Held for sale <sup>17</sup> reclassification in line-by-line consolidation	Balance sheet per regulatory scope of consolidation
2014		€000	€000	€000	€000
<b>Assets</b>					
Cash and balances with central banks		1.139.465	(96)	85.952	1.225.321
Loans and advances to banks		1.646.886	(29.178)	35.994	1.653.702
Derivative financial assets		62.598	(9)	-	62.589
Investments		1.871.136	(15.092)	348	1.856.392
Investments pledged as collateral		669.786	-	-	669.786
Loans and advances to customers		18.168.323	4.627	549.830	18.722.780
Life insurance business assets attributable to policyholders		472.992	(472.992)	-	-
Prepayments, accrued income and other assets		322.832	(95.674)	126.106	353.264
Stock of property		12.662	(10.898)	-	1.764
Property and equipment		290.420	(55.741)	25.681	260.360
Investment properties		488.598	(15.575)	44.566	517.589
Intangible assets	c	127.402	(111.618)	-	15.784
Investments in associates and joint ventures		116.776	(105.123)	73.683	85.336
Deferred tax assets		456.871	(44)	495	457.322
Non-current assets and disposal groups held for sale		942.655	-	(942.655)	-
Investments in Group undertakings		-	150.453	-	150.453
<b>Total assets</b>		<b>26.789.402</b>	<b>(756.960)</b>	<b>-</b>	<b>26.032.442</b>
<b>Liabilities</b>					
Deposits by banks		162.388	680	29.650	192.718
Funding from central banks		8.283.773	-	-	8.283.773
Repurchase agreements		579.682	-	-	579.682
Derivative financial liabilities		71.967	-	589	72.556
Customer deposits		12.623.558	63.965	545.620	13.233.143
Insurance liabilities		576.701	(576.701)	-	-
Accruals, deferred income and other liabilities		350.431	(18.051)	34.491	366.871
Debt securities in issue		693	-	1.770	2.463
Subordinated loan stock		-	-	2.301	2.301
Deferred tax liabilities		44.741	(19.927)	-	24.814
Non-current liabilities and disposal groups held for sale		614.421	-	(614.421)	-
<b>Total liabilities</b>		<b>23.308.355</b>	<b>(550.034)</b>	<b>-</b>	<b>22.758.321</b>
<b>Equity</b>					
Share capital		892.238	-	-	892.238
Share premium		552.539	-	-	552.539
Capital reduction reserve		1.952.486	-	-	1.952.486
Shares subject to interim orders		441	-	-	441
Revaluation and other reserves		146.809	(133.838)	-	12.971
Accumulated losses		(79.021)	(65.063)	-	(144.084)
<b>Equity attributable to owners of the Company</b>	b	<b>3.465.492</b>	<b>(198.901)</b>	<b>-</b>	<b>3.266.591</b>
<b>Non-controlling interests</b>		15.555	(8.025)	-	7.530
<b>Total equity</b>	a	<b>3.481.047</b>	<b>(206.926)</b>	<b>-</b>	<b>3.274.121</b>
<b>Total liabilities and equity</b>		<b>26.789.402</b>	<b>(756.960)</b>	<b>-</b>	<b>26.032.442</b>

<sup>17</sup> As at 31 December 2014 the Russian operations of the Group were classified as a disposal group held for sale. Further information is disclosed in Note 29 of the Consolidated Financial Statements for year 2015.



### 3.3 CRD IV Regulatory Capital

The tables below disclose the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2015 and 2014.

This disclosure has been prepared using the format set out in Annex VI of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the CRR.

	Group		
	Transitional position	Transitional impact	Fully loaded
	2015	2015	2015
	€000	€000	€000
Capital instruments and the related share premium accounts	3.397.399	-	3.397.399
Retained earnings	(689.398)	-	(689.398)
Accumulated other comprehensive income and other reserves	125.446	-	125.446
Minority interests (amount allowed in consolidated CET1)	-	-	-
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>2.833.447</b>	<b>-</b>	<b>2.833.447</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
Intangible assets	(17.203)	-	(17.203)
Regulatory adjustments relating to unrealised gains and losses	(50.483)	-	(50.483)
Deferred tax	(17.989)	(173.833)	(191.822)
Direct and indirect holdings of financial sector entities	-	(5.435)	(5.435)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(85.675)</b>	<b>(179.268)</b>	<b>(264.943)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>2.747.772</b>	<b>(179.268)</b>	<b>2.568.504</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1=CET1 + AT1)</b>	<b>2.747.772</b>	<b>(179.268)</b>	<b>2.568.504</b>
<b>Tier 2 (T2) capital</b>			
Unrealised gains and other reserves	30.290	(30.290)	-
<b>Tier 2 (T2) capital</b>	<b>30.290</b>	<b>(30.290)</b>	<b>-</b>
<b>Total capital (TC=T1+T2)</b>	<b>2.778.062</b>	<b>(209.558)</b>	<b>2.568.504</b>
<b>Risk weighted assets</b>			
Credit risk	17.618.578	(43.390)	17.575.188
Market risk	7.811	-	7.811
Operational risk	2.039.888	-	2.039.888
<b>Total risk weighted assets</b>	<b>19.666.277</b>	<b>(43.390)</b>	<b>19.622.887</b>
<b>Capital ratios</b>			
<b>Common Equity Tier 1</b>	<b>14,0%</b>	<b>(0,9%)</b>	<b>13,1%</b>
<b>Tier 1</b>	<b>14,0%</b>	<b>(0,9%)</b>	<b>13,1%</b>
<b>Total capital</b>	<b>14,1%</b>	<b>(1,0%)</b>	<b>13,1%</b>
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	126.110	(5.435)	120.675
Deferred tax assets (amount below 10% threshold)	276.576	(11.920)	264.656

### 3.3 CRD IV Regulatory Capital (continued)

	Group		
	Transitional position	Transitional impact	Fully loaded
	2014	2014	2014
	€000	€000	€000
Capital instruments and the related share premium accounts	3.397.263	-	3.397.263
Retained earnings	(144.084)	-	(144.084)
Accumulated other comprehensive income and other reserves	13.412	-	13.412
Minority interests (amount allowed in consolidated CET1)	(7.168)	-	(7.168)
<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>3.259.423</b>	<b>-</b>	<b>3.259.423</b>
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
Intangible assets	(15.784)	-	(15.784)
Regulatory adjustments relating to unrealised gains and losses	(52.684)	2.132	(50.552)
Deferred tax	-	(138.071)	(138.071)
<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(68.468)</b>	<b>(135.939)</b>	<b>(204.407)</b>
<b>Common Equity Tier 1 (CET1) capital</b>	<b>3.190.955</b>	<b>(135.939)</b>	<b>3.055.016</b>
<b>Additional Tier 1 (AT1) capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tier 1 capital (T1=CET1 + AT1)</b>	<b>3.190.955</b>	<b>(135.939)</b>	<b>3.055.016</b>
<b>Tier 2 (T2) capital</b>			
Unrealised gains and other reserves	42.146	(42.146)	-
<b>Tier 2 (T2) capital</b>	<b>42.146</b>	<b>(42.146)</b>	<b>-</b>
<b>Total capital (TC=T1+T2)</b>	<b>3.233.101</b>	<b>(178.085)</b>	<b>3.055.016</b>
<b>Risk weighted assets</b>			
Credit risk	20.624.507	-	20.624.507
Market risk	5.025	-	5.025
Operational risk	2.085.000	-	2.085.000
<b>Total risk weighted assets</b>	<b>22.714.532</b>	<b>-</b>	<b>22.714.532</b>
<b>Capital ratios</b>			
<b>Common Equity Tier 1</b>	<b>14,0%</b>	<b>(0,6%)</b>	<b>13,4%</b>
<b>Tier 1</b>	<b>14,0%</b>	<b>(0,6%)</b>	<b>13,4%</b>
<b>Total capital</b>	<b>14,2%</b>	<b>(0,8%)</b>	<b>13,4%</b>
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	136.531	-	136.531
Deferred tax assets (amount below 10% threshold)	319.096	-	319.096

### 3.3 CRD IV Regulatory Capital (continued)

#### *Issued share capital*

The issued share capital consists of 8.922.945 (2014: 8.922.378) number of shares at nominal value of €0,10 each. The movement of the share capital for years 2015 and 2014 is shown on the table below:

	2015		2014	
	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €0,10 each	<b>47.677.593</b>	<b>4.767.759</b>	47.677.593	4.767.759
<i>Issued</i>				
<b>1 January</b>	<b>8.922.378</b>	<b>892.238</b>	4.683.985	4.683.985
Bail-in of deposits and structured products	-	-	150	150
Shares subject to interim orders withdrawn/cancelled	-	-	58.625	58.625
Additional shares issued to Laiki Bank for 2013 acquisition	-	-	12.951	12.951
Reduction of nominal value of share capital	-	-	-	(4.280.140)
Issue of shares	<b>567</b>	<b>56</b>	4.166.667	416.667
<b>31 December</b>	<b>8.922.945</b>	<b>892.294</b>	8.922.378	892.238

All issued ordinary shares carry the same rights.

Further details in relation to the share capital of the Company are presented in Note 35 of the Consolidated Financial Statements for year 2015.

#### *Treasury shares*

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. The number of these shares at 31 December 2015 was 5.136 thousand of a nominal value of €0,10 each (2014: 20.751 thousand of a nominal value of €0,10 each). The total cost of acquisition of treasury shares was €41.301 thousand (2014: €88.051 thousand).

Part of these shares held by entities controlled by the Group resulted from the bail-in of deposits that these entities maintained with the Company and shall be disposed of in the near future.

In addition, the life insurance subsidiary of the Group held, as at 31 December 2015, a total of 2.889 thousand (2014: 3.156 thousand) shares of the Company, as part of its financial assets which are invested for the benefit of insurance policyholders (Note 24 of the Consolidated Financial Statements for year 2015). The cost of acquisition of these shares was €25.333 thousand (2014: €25.333 thousand).

#### *Share premium reserve*

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

During 2015, as a result of the issuance of 567 thousand shares of a nominal value of €0,10 each at a subscription price of €0,24 each, the Company's share premium increased by €79 thousand.

In 2014, as a result of the issuance of 4.166.667 thousand shares of a nominal value of €0,10 each at a subscription price of €0,24 each, the Company's share premium increased by €583.333 thousand. Transaction costs of €30.794 thousand associated with the issue of new shares were deducted from share premium.

### **3.3 CRD IV Regulatory Capital (continued)**

#### *Capital Reduction reserve*

The capital reduction reserve was created following the reduction of the nominal value of ordinary shares from €1 each and €0,10 each in 2014. The reduction in capital amounted to €4.280.140 thousand of which an amount of €2.327.654 thousand was applied against accumulated losses and an amount of €1.952.486 thousand was credited to the capital reduction reserve.

#### *Share-based payments-share options*

On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the Board to establish and implement a Long Term Incentive Plan and allowed the Company the flexibility to increase the ratio of variable remuneration relative to fixed remuneration up to a maximum of 100% of fixed remuneration for members of senior management ('Shareholder Resolution'). The Long Term Incentive Plan involves the granting of options for the acquisition of shares to a defined group of employees of the Group and under the current terms of the Shareholder Resolution:

- (i) the total amount of shares that may be issued and allotted under the Long Term Incentive Plan shall not exceed 178.458.891 ordinary shares of nominal value of €0,10 each,
- (ii) the exercise price shall be set at €0,25 per share,
- (iii) the vested share options will only be able to be exercised three years after the grant date, and
- (iv) any share options not exercised by 31 March 2026 will lapse.

The options will be designed to vest only if certain key performance conditions are met, including amongst other things, the full repayment of ELA, the lifting of dividend restrictions, the cancellation of government guarantee and the performance of eligible employees.

The Long Term Incentive Plan is currently under regulatory review. Therefore, the original proposed grant date under the Shareholder Resolution of 31 March 2016 will be postponed until such time that all relevant regulatory approvals have been obtained for the Long Term Incentive Plan.

### 3.4 Main Terms and Conditions of Capital Resources

The capital base of the Group for regulatory purposes comprises ordinary shares (CET1 instruments). The main features of the ordinary shares are presented below:

		2015	2014
		Group	Group
1	Issuer	Bank of Cyprus Public Company Ltd	Bank of Cyprus Public Company Ltd
2	Unique identifier	CY0104810110	CY0104810110
3	Governing law(s) of the instrument	Cyprus Law	Cyprus Law
	<b>Regulatory treatment</b>		
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated and Individual	Consolidated and Individual
7	Instrument type	Ordinary Shares	Ordinary Shares
8	Amount recognised in regulatory capital	892.294.453	892.237.735
9	Nominal amount of instrument	892.294.453	892.237.735
9(a)	Issue price	Various	Various
9(b)	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' Equity	Shareholders' Equity
11	Original date of issuance	N/A	N/A
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	N/A	N/A
14	Issuer call subject to prior supervisory approval	N/A	N/A
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	<b>Coupons/dividends</b>		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	Yes <sup>18</sup>	Yes <sup>18</sup>
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	N/A
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

<sup>18</sup> Following the resolution measures, restructuring plan has been prepared for the period 2013 to 2017. Within this period no dividend distribution is allowed.

#### 4. Minimum Required Own Funds for Credit, Market and Operational Risk

##### Group's approach to assessing the adequacy of its internal capital

The Group's capital projections are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs.

The Group's capital projections are frequently monitored against relevant internal target capital ratios to ensure they remain appropriate, and consider risks to the plan, including possible future regulatory changes.

The plans take into account the key pillars of the Group's strategy which are set out below:

- Materially reduce the level of delinquent loans.
- Normalise the funding structure and fully repay the ELA.
- Focus on the core Cyprus market by providing credit to promising sectors and exit non-core markets.
- Achieve a lean operating model.
- Maintain an appropriate capital position by internally generating capital through profitability, deleveraging and disposing of non-core assets.
- Deliver value to shareholders and other stakeholders.

##### 4.1 Credit Risk

The Standardised Approach has been applied to calculate the minimum capital requirement in accordance with the requirements laid down in Article 92 of the CRR:

Exposure Class	2015	2014
	€000	€000
Central governments or central banks	-	1.585
Collective investment undertakings (CIU)	9	63
Corporates	203.679	235.982
Equity	25.719	28.404
Exposures in default	435.215	488.018
Institutions	33.779	28.157
Items associated with particularly high risk	320.497	467.331
Other items	124.184	142.245
Regional governments or local authorities	105	126
Retail	130.952	130.476
Secured by mortgages on immovable property	132.237	121.110
Covered bonds	109	-
<b>Total Capital Requirement for Credit Risk</b>	<b>1.406.485</b>	<b>1.643.497</b>

#### 4.2 Market Risk

The minimum capital requirement calculated in accordance with Title IV: Own funds requirements for market risk of the CRR is as follows:

Portfolio Transactions	2015	2014
	€000	€000
Risk Type		
Position risk	625	402
<b>Total Capital Requirement for Market Risk</b>	<b>625</b>	<b>402</b>

#### 4.3 Operational Risk

The Group uses the Standardised Approach for the operational risk capital calculation. In 2014, operations in Russia, that were disposed in 2015, followed the Basic Indicator Approach as an approval had been granted by the CBC.

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach and Basic Indicator Approach amounts to €163.191 thousand (2014: €166.800 thousand).

2015	Standardised approach
	€000
Corporate finance (CF)	118
Trading and Sales (TS)	2.591
Retail Brokerage (RBr)	99
Commercial Banking (CB)	127.867
Retail Banking (RB)	24.880
Payment and Settlement (PS)	7.218
Agency Services (AS)	210
Asset Management (AM)	208
<b>Total Capital Requirements for Operational Risk</b>	<b>163.191</b>

#### 4.3 Operational Risk (continued)

2014	Standardised approach	Basic indicator approach	Total
	€000	€000	€000
Corporate finance (CF)	136	-	136
Trading and Sales (TS)	3.665	-	3.665
Retail Brokerage (RBr)	163	-	163
Commercial Banking (CB)	112.184	14.960	127.144
Retail Banking (RB)	27.188	-	27.188
Payment and Settlement (PS)	7.914	-	7.914
Agency Services (AS)	274	-	274
Asset Management (AM)	316	-	316
<b>Total Capital Requirements for Operational Risk</b>	<b>151.840</b>	<b>14.960</b>	<b>166.800</b>

#### 4.4 Credit Valuation Adjustment (CVA) Risk

CVA captures the credit risk of derivative counterparties not already included in Counterparty Credit Risk (i.e. the potential loss on derivatives due to increase in the credit spread of the counterparty).

	2015	2014
	€000	€000
<b>CVA (Credit Valuation Adjustment) Capital Requirement</b>	<b>3.001</b>	6.464

### 5. Counterparty Credit Risk

Counterparty credit risk arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as derivatives, and securities financing transactions.

As at 31 December 2015, the Group's total Counterparty credit risk exposure was €67.783 thousand (2014: €146.574 thousand), of which €9.689 thousand (2014: €31.904 thousand) were exposures of derivatives (analysed in Section 5.6) and the remaining €58.094 thousand (2014: €114.670 thousand) was due to securities financing transactions (repurchase agreements). The exposure of securities financing transactions has been calculated according to Article 223 'Financial Collateral Comprehensive Method' of CRR.

#### 5.1 Internal Capital and Credit Limits for Counterparty Credit Exposures

The model, which was approved by the BoD, sets maximum limits for financial institutions, based on their credit rating and Tier 1 capital base or the Bank's Tier 1 capital base, in case it is lower. Afterwards, an internal score system is applied that considers qualitative and quantitative factors such as:

- Capital adequacy.
- Profitability.
- Liquidity.
- Market share.
- Ownership strength.



### **5.1 Internal Capital and Credit Limits for Counterparty Credit Exposures (continued)**

The results of the score system are used to reduce the maximum limits of counterparty credit exposures set using the model described above.

Two types of limits are monitored:

- (a) Credit: for Money Market (MM), FX (FX swaps, FX forwards), bonds, derivatives, commercial transactions and other transactions.
- (b) Settlement: for maturing FX spot, forward and swaps, money market placements and banknotes.

Allocated Money Market limits are set for a short duration, unless they are used for independent amounts (as defined in the Credit Support Annex (CSA) agreement). Limits for derivative transactions are assigned to counterparties with a CSA agreement in place. Allocated derivative limits with counterparties that have not signed CSA can be utilised only after proper CSA agreement is signed prior to any derivative transaction. The only exception of current exposure without a CSA agreement concerns one counterparty.

The derivative limit for the Expected Replacement Cost (ERC) of a contract, counts within the overall limit of the counterparty and is equal to the total limit. There is also a limit for the maximum notional amount of contracts with each counterparty (excluding the ECB), which amounts to €750 million.

Credit risk arising from entering into derivative transactions with counterparties is measured using the mark-to-market method.

According to this method, the current replacement cost of all contracts with positive amounts is obtained and an add-on is applied to this amount for potential future credit exposure, based on specific factors that depend on the type of the transaction and its duration. This amount is used both for calculating the capital required for the credit risk of these transactions and for credit limit monitoring.

### **5.2 Policies for Securing Collateral and Establishing Credit Reserves**

Collateral management involves multiple parties and various departments of the Bank. The collateral management team is the Treasury Backoffice.

The responsibilities of the collateral management team are as follows:

- a) Handling collateral valuations and margin calls (for derivatives).
- b) Maintain relevant data and liaise with counterparties regarding issues of collaterals.

The use of collateral for funding purposes is centralized at Group Treasury, with specific authorised personnel having the responsibility to manage it. The Fixed Income desk is responsible for reviewing and managing fixed income securities as collateral both for counterparty repos and ECB / ELA funding. The Liquidity Management desk is jointly responsible with the Money Market desk and FX Risk/IR (Interest Rate Risk Management) desk in collaboration with other departments of the bank to monitor the use of cash as collateral. The Group Funding department is responsible for the monitoring and use of loan assets for funding programmes collateralised by loans such as Covered Bond Issuance, Additional Credit Claims and ELA funding.

The Treasury Regulatory Management and Documentation Department handles legal documentation (in collaboration with legal department) and relevant reporting. The legal department provides advice and support regarding relevant agreements for collateralization.

The Group has chosen the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a CSA in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

## 5.2 Policies for Securing Collateral and Establishing Credit Reserves (continued)

The Group has chosen the Global Master Repurchase Agreement for documenting its repurchase activity. It is a legal agreement designed for parties transacting repos and is published by the International Capital Market Association (ICMA), which is the body representing the bond and repo markets in Europe. It provides the contractual framework within which Buy/Sell Back transactions are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions and collateral covered by an agreement, if either party defaults.

As at 31 December 2015, the Group had signed CSAs to the ISDA Master Agreement with 24 counterparties (2014: 21 counterparties). As at 31 December 2015, the Group maintained exposures with 14 counterparties (2014: 18 counterparties). The following table presents the total amounts that were transferred to (where the indicated amount is negative) or obtained from (where the indicated amount is positive) counterparties as the threshold amounts of 13 of the counterparties (2014: 16 counterparties), with which the Bank has signed a CSA agreement, were reached as at 31 December:

	2015	2014
	€000	€000
Total Positive	2.478	16.685
Total Negative	(82.123)	(67.455)
<b>Total</b>	<b>(79.645)</b>	<b>(50.770)</b>

## 5.3 Policies with Respect to Wrong-Way Risk Exposures

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Group's derivative transactions) have an adverse impact on the probability of default (PD) of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of CSAs for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk.

## 5.4 Collateral the Bank would have to provide given a Downgrade in its Credit Rating

As at 31 December 2015, the only instance where the Group would have to provide additional collateral in the event of a downgrade, involved derivative transactions under ISDA agreements, where a CSA has been signed. Out of the 24 agreements that were in place as at 31 December 2015, the terms of three CSAs provide for additional collateral in the event of a downgrade. Given the current rating of the Bank<sup>19</sup> as at 31 December 2015, no additional collateral is expected to be required, in the event of a downgrade.

## 5.5 Gross Positive Fair Value of Contracts, Netting Benefits, Netted Current Credit Exposure, Collateral held and Net Derivatives Credit Exposure

The gross positive fair value of Group derivative contracts, which mainly consist of interest rate swaps and FX contracts, is presented in the table below:

	2015	2014
	€000	€000
Gross positive fair value		
Cyprus	13.939	62.521
United Kingdom	53	153
<b>Group</b>	<b>13.992</b>	<b>62.674</b>

### <sup>19</sup> Credit Ratings:

- Fitch Ratings: Long-term Issuer Default Rating upgraded to "CCC" on 28 April 2015, Short-term Issuer Default Rating affirmed at "C" on 28 April 2015, Viability Rating upgraded to "CCC" on 28 April 2015.
- Moody's Investors Service: Baseline Credit Assessment affirmed at caa3 on 28 May 2015 (stable outlook), Short-term deposit rating affirmed at "Not Prime" on 17 November 2014, Long-term deposit rating affirmed at Caa3 on 28 May 2015 (stable outlook), Counterparty Risk Assessment assigned at Caa2 (cr) / Not-Prime (cr) on 28 May 2015.

#### 5.5 Gross Positive Fair Value of Contracts, Netting Benefits, Netted Current Credit Exposure, Collateral held and Net Derivatives Credit Exposure (continued)

The Bank has netting benefits for the derivatives, through the ISDA/CSA agreements signed with the majority of counterparties. The netted credit exposure for the Group derivative contracts (without considering collateral arrangements), is presented in the table below:

Netted credit exposure	2015	2014
	€000	€000
Cyprus	3.338	35.439
United Kingdom	53	153
<b>Group</b>	<b>3.391</b>	<b>35.592</b>

The net derivative credit exposure of Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements, is presented in the table below. Collateral received through the CSA agreements from counterparties during 2015 was €2,5 million (2014: €16,7 million).

Net derivative credit exposure	2015	2014
	€000	€000
Cyprus	860	19.738
United Kingdom	53	153
<b>Group</b>	<b>913</b>	<b>19.891</b>

#### 5.6 Mark-to-Market Method and Exposures

The table below indicates the measures for exposure value under the mark-to-market method. The exposure values are the sum of:

- Positive mark-to-market after taking into account:
  - a) Accrued interest
  - b) Netting within each counterparty (where set-off agreement exists)
- Add-on amount, which is equal to a percentage of the nominal amount of each deal based on its remaining maturity and the type of contract as per CRD IV and CRR guidelines.

## 5.6 Mark-to-Market Method and Exposures (continued)

However, in the case where a CSA agreement is in place (and the relevant amount has already been settled) the exposure is set to zero, since no credit risk exists.

The mark-to-market of derivatives is calculated using the Net Present Value (NPV) of future cash flows method.

<b>2015</b>		
<b>Exposures under the mark-to-market method</b>	<b>Cyprus</b>	<b>Group</b>
	<b>€000</b>	<b>€000</b>
Institutions	9.279	9.279
Corporates	410	410
<b>Total</b>	<b>9.689</b>	<b>9.689</b>

<b>2014</b>		
<b>Exposures under the mark-to-market method</b>		
Institutions	30.439	30.439
Corporates	1.465	1.465
<b>Total</b>	<b>31.904</b>	<b>31.904</b>

Further to the above, an additional adjustment, the Credit Valuation Adjustment (CVA) is made to capture the credit risk of derivative counterparties (i.e. the potential loss on derivatives due to increase in the credit spread of the counterparty). According to IFRS 13 'Fair Value Measurement', CVA should be calculated for all derivatives carried at fair value. Repos are not within the scope of accounting CVA since they are not fair valued. As at 31 December 2015 the total accounting CVA charge was equal to €136 thousand (2014: €191 thousand).

### **Regulatory CVA charge for capital calculation**

The Standardised Approach has been used to calculate the CVA charge for regulatory purposes in accordance with the requirements of the CRR. As at 31 December 2015, the total regulatory CVA charge was €3,0 million (2014: €6,4 million).

## 5.7 Notional Value of Derivative Hedges and the Distribution of Current Credit Exposure by Types of Credit Exposure

The notional amount of derivatives hedges which mainly consist of interest rate swaps and FX contracts at 31 December 2015 was €2.195 million (2014: €2.294 million).

The exposure values of derivatives are calculated as described in Section 5.6 above. Repurchase transactions are not included. The exposures per country are analysed below:

2015	Trading Book	Banking Book	Total
	€000	€000	€000
Cyprus	-	410	410
United Kingdom	-	2.104	2.104
Switzerland	-	3.771	3.771
Other Countries	-	3.404	3.404
<b>Group</b>	<b>-</b>	<b>9.689</b>	<b>9.689</b>

2014			
Cyprus	-	1.807	1.807
United Kingdom	-	19.406	19.406
Switzerland	-	5.083	5.083
Other Countries	-	5.608	5.608
<b>Group</b>	<b>-</b>	<b>31.904</b>	<b>31.904</b>

## 6. Bank's Exposure to Credit Risk and Impairment

The following sections provide an analysis of past due and impaired loans, exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors) and provisions for impairment of loans and advances.

### 6.1 Past Due and Impaired Loans

#### *Past due loans and impaired loans*

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery. This classification is used for disclosures in Note 44 in the Consolidated Financial Statements for year 2015.

#### *Impairment of loans and receivables*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults. There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due, according to the original contract terms.

### **6.1 Past Due and Impaired Loans (continued)**

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

Provisions for impairment of loans are determined using the 'incurred loss' model as required by IFRS, which requires recognition of impairment losses that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those events are.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible collateral. The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently apply. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the Consolidated Income Statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows.

If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances and other customer credit losses' in the Consolidated Income Statement.

**6.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Exposure Class**

	<b>31 December</b>	<b>Average</b>
	<b>2015</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Central governments or central banks	2.185.186	2.845.597
Collective investment undertakings (CIU)	107	448
Corporates	2.857.024	3.071.440
Equity	132.325	141.290
Exposures in default	5.005.850	5.352.952
Institutions	1.343.054	1.480.141
International organisations	11.923	11.993
Items associated with particularly high risk	2.726.602	3.354.912
Multilateral development banks	10.912	11.872
Public sector entities	40.258	40.361
Regional governments or local authorities	65.191	69.474
Retail	2.543.351	2.537.355
Secured by mortgages on immovable property	4.432.581	4.213.408
Covered bonds	13.579	6.789
Other items	1.314.407	1.439.387
<b>Total</b>	<b>22.682.350</b>	<b>24.577.419</b>

**6.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Exposure Class (continued)**

	<b>31 December</b>	<b>Average</b>
	<b>2014</b>	<b>2014</b>
	<b>€000</b>	<b>€000</b>
Central governments or central banks	3.506.006	3.918.965
Collective investment undertakings (CIU)	789	442
Corporates	3.285.856	4.911.552
Equity	150.255	75.128
Exposures in default	5.700.054	6.388.214
Institutions	1.617.227	1.587.182
International organisations	12.063	11.628
Items associated with particularly high risk	3.983.222	2.146.615
Multilateral development banks	12.832	12.526
Public sector entities	40.465	41.809
Regional governments or local authorities	73.756	79.251
Retail	2.531.360	2.677.483
Secured by mortgages on immovable property	3.994.236	4.847.995
Other items	1.564.368	1.618.388
<b>Total</b>	<b>26.472.489</b>	<b>28.317.178</b>



### 6.3.1 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Significant Geographic Area and Material Exposure Class

The allocation is based on the country of risk.

Country of Risk	Central governments or central banks	Corporates	Exposures in default	Institutions	Items associated with particularly high risk	Retail	Secured by mortgages on immovable property	Remaining Exposure Classes*	Grand Total
2015	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>EU Countries</b>	<b>2.185.186</b>	<b>2.686.928</b>	<b>4.760.095</b>	<b>918.405</b>	<b>2.661.593</b>	<b>2.486.925</b>	<b>4.357.782</b>	<b>1.550.634</b>	<b>21.607.548</b>
Cyprus	1.417.248	2.273.244	4.343.657	32.613	2.578.258	2.200.292	3.679.956	1.295.198	17.820.466
United Kingdom	310.818	318.740	204.185	210.301	34.568	251.712	647.027	18.821	1.996.172
France	290.164	6	64	132.934	3.620	316	598	-	427.702
Germany	35.362	29.269	29.200	1.586	14.137	27.422	22.228	186.044	345.248
Romania	711	64.784	171.640	5.189	30.678	2.089	2.372	50.571	328.034
Belgium	30.578	552	1	149.475	-	23	79	-	180.708
Greece	45.686	7	235	100.363	-	522	950	-	147.763
Other EU Countries	54.619	326	11.113	285.944	332	4.549	4.572	-	361.455
<b>Non EU Countries</b>	<b>-</b>	<b>170.096</b>	<b>245.755</b>	<b>424.649</b>	<b>65.009</b>	<b>56.426</b>	<b>74.799</b>	<b>15.234</b>	<b>1.051.968</b>
Russian Federation	-	24.306	96.742	75.392	330	27.730	39.005	1.631	265.136
Virgin Islands, British	-	62.492	9.851	-	61.833	1	164	-	134.341
Australia	-	7	665	98.539	-	143	545	-	99.899
Canada	-	18.289	10.795	59.514	-	5.576	1.147	-	95.321
Other Non EU Countries	-	65.002	127.702	191.204	2.846	22.976	33.938	13.603	457.271
<b>Supranational</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22.834</b>	<b>22.834</b>
<b>Total</b>	<b>2.185.186</b>	<b>2.857.024</b>	<b>5.005.850</b>	<b>1.343.054</b>	<b>2.726.602</b>	<b>2.543.351</b>	<b>4.432.581</b>	<b>1.588.702</b>	<b>22.682.350</b>

\* Exposure classes reported as 'Remaining Exposure Classes are: Collective Investment Undertakings (CIU), Equity exposures, International organisations, Multilateral Developments banks, Other items, Public sector entities, Regional governments or local authorities and Covered Bonds.

**6.3.1 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Significant Geographic Area and Material Exposure Class (continued)**

The allocation is based on the country of risk.

Country of Risk	Central governments or central banks	Corporates	Exposures in default	Institutions	Items associated with particularly high risk	Retail	Secured by mortgages on immovable property	Remaining Exposure Classes*	Grand Total
2014	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>EU Countries</b>	<b>3.466.370</b>	<b>2.864.989</b>	<b>5.378.711</b>	<b>1.295.406</b>	<b>3.910.356</b>	<b>2.190.220</b>	<b>3.860.963</b>	<b>1.757.669</b>	<b>24.724.684</b>
Cyprus	2.329.843	2.584.059	4.745.449	11.543	3.317.933	2.011.229	3.661.039	1.555.688	20.216.783
United Kingdom	470.401	86.056	196.862	430.433	493.272	166.399	185.917	23.223	2.052.563
France	489.205	9	51	130.831	3.386	468	596	-	624.546
Germany	46.186	28	465	302.610	65	763	807	-	350.924
Romania	2.397	94.958	286.024	247	66.854	4.424	3.977	42.774	501.655
Belgium	41.556	495	13	158.985	-	15	45	-	201.109
Greece	246	99.150	139.278	43.225	27.059	2.924	3.496	125.729	441.107
Other EU Countries	86.536	234	10.569	217.532	1.787	3.998	5.086	10.255	335.997
<b>Non EU Countries</b>	<b>39.636</b>	<b>420.867</b>	<b>321.343</b>	<b>321.821</b>	<b>72.866</b>	<b>341.140</b>	<b>133.273</b>	<b>82.219</b>	<b>1.733.165</b>
Russian Federation	39.636	261.711	87.785	25.872	14.745	307.911	92.264	82.182	912.106
Virgin Islands, British	-	70.690	95.074	-	10.848	10	101	-	176.723
Australia	-	3	2.477	89.432	365	781	1.072	-	94.130
Canada	-	20	3.733	53.698	-	1.826	1.226	-	60.503
Other Non EU Countries	-	88.443	132.274	152.819	46.908	30.612	38.610	37	489.703
<b>Supranational</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.640</b>	<b>14.640</b>
<b>Total</b>	<b>3.506.006</b>	<b>3.285.856</b>	<b>5.700.054</b>	<b>1.617.227</b>	<b>3.983.222</b>	<b>2.531.360</b>	<b>3.994.236</b>	<b>1.854.528</b>	<b>26.472.489</b>

\* Exposure classes reported as 'Remaining Exposure Classes are: Collective Investment Undertakings (CIU), Equity exposures, International organisations, Multilateral developments banks, Other items, Public sector entities and Regional governments or local authorities.

### 6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class

Exposures which correspond to the 'Other items' category in the table below cannot be allocated to any of the specific industry types as this category includes items such as cash, tangible assets, deferred tax assets, etc.

	Central govern- ments or central banks	Collective investment undertakings (CIU)	Corporates	Equity	Exposu- res in default	Institutions	International Organisa- tions	Items associated with particularly high risk	Multilate- ral develop- ment banks	Other items	Public sector entities	Regional govern- ments or local authoritie s	Retail	Secured by mort- gages on immo- vable property	Covered bonds	Total
2015	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Accommodation and Food Service Activities	-	-	492.408	636	444.917	-	-	14.411	-	-	-	-	66.824	227.660	-	<b>1.246.856</b>
Activities of extraterritorial organizations and Bodies	-	-	-	-	-	-	11.923	-	10.912	-	-	-	-	-	-	<b>22.835</b>
Administrative and Support Service Activities	-	-	19.353	-	57.685	-	-	2.767	-	-	-	-	16.511	20.817	-	<b>117.133</b>
Agriculture, Forestry and Fishing	-	-	28.430	-	87.163	-	-	1.202	-	-	-	-	16.628	42.372	-	<b>175.795</b>
Arts, Entertainment and Recreation	-	-	59.531	-	52.017	-	-	866	-	-	-	-	37.526	71.912	-	<b>221.852</b>
Central Government and Public Administration	2.185.186	-	-	-	10.115	-	-	-	-	-	40.258	65.191	-	-	-	<b>2.300.750</b>
Construction	-	-	189.855	-	622.523	-	-	1.701.305	-	-	-	-	71.865	192.643	-	<b>2.778.191</b>
Education	-	-	14.582	-	22.412	-	-	-	-	-	-	-	14.952	34.086	-	<b>86.032</b>

**6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class** (continued)

	Central governments or central banks	Collective investment undertakings (CIU)	Corporates	Equity	Exposures in default	Institutions	International Organisations	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Covered bonds	Total
2015	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Electricity, Gas, Steam And Air Conditioning Supply	-	-	7.406	-	2.273	-	-	-	-	-	-	-	3.932	3.625	-	<b>17.236</b>
Financial and Insurance Activities	-	107	169.091	73.600	248.640	1.343.043	-	34.850	-	28.702	-	-	8.883	23.955	13.579	<b>1.944.450</b>
Human Health and Social Work Activities	-	-	36.314	-	65.215	-	-	879	-	-	-	-	56.456	75.824	-	<b>234.688</b>
Information and Communication	-	-	102.149	-	45.378	-	-	95	-	-	-	-	7.691	28.447	-	<b>183.760</b>
Manufacturing	-	-	180.458	3.491	249.217	-	-	2.420	-	-	-	-	56.233	147.962	-	<b>639.781</b>
Mining and Quarrying	-	-	16.682	-	38.998	-	-	3.026	-	-	-	-	850	3.353	-	<b>62.909</b>
Other Items	-	-	-	-	-	-	-	-	-	1.285.705	-	-	-	-	-	<b>1.285.705</b>
Other Service Activities	-	-	96.596	54.404	80.485	-	-	36	-	-	-	-	7.345	7.564	-	<b>246.430</b>
Private Individuals	-	-	294.656	-	1.529.925	-	-	57.331	-	-	-	-	1.720.668	2.242.590	-	<b>5.845.170</b>
Professional, Scientific and Technical Activities	-	-	101.455	-	273.900	11	-	43.171	-	-	-	-	76.797	115.856	-	<b>611.190</b>

**6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class** (continued)

	Central governments or central banks	Collective investment undertakings (CIU)	Corporates	Equity	Exposures in default	Institutions	International Organisations	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Covered bonds	Total
2015	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Real Estate																
Activities	-	-	502.273	-	413.122	-	-	773.376	-	-	-	-	144.048	722.483	-	<b>2.555.302</b>
Transportation and Storage	-	-	38.155	20	100.465	-	-	335	-	-	-	-	17.628	25.509	-	<b>182.112</b>
Water Collection, Treatment And Supply	-	-	4.718	-	2.392	-	-	634	-	-	-	-	2.305	5.203	-	<b>15.252</b>
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	-	-	502.912	174	659.008	-	-	89.898	-	-	-	-	216.209	440.720	-	<b>1.908.921</b>
<i>All industry groups - of which SME</i>	-	-	<i>1.578.288</i>	<i>84</i>	<i>1.788.458</i>	-	-	<i>1.220.660</i>	-	-	-	-	<i>635.662</i>	<i>1.433.968</i>	-	<b><i>6.657.120</i></b>
<b>Total</b>	<b>2.185.186</b>	<b>107</b>	<b>2.857.024</b>	<b>132.325</b>	<b>5.005.850</b>	<b>1.343.054</b>	<b>11.923</b>	<b>2.726.602</b>	<b>10.912</b>	<b>1.314.407</b>	<b>40.258</b>	<b>65.191</b>	<b>2.543.351</b>	<b>4.432.581</b>	<b>13.579</b>	<b>22.682.350</b>

**6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class** (continued)

	Central govern-ents or central banks	Collective investment undertakings (CIU)	Corpo-rates	Equity	Exposures in default	Institut-ions	Internat-ional Organisa-tions	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional govern-ments or local authorities	Retail	Secured by mortgages on immovable property	Total
2014	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Accommodation and Food Service activities	-	-	526.785	24	541.161	-	-	12.388	-	-	-	-	64.721	88.971	<b>1.234.050</b>
Activities of extraterritorial organizations and Bodies	-	-	-	-	-	-	12.063	-	12.832	-	-	-	-	-	<b>24.895</b>
Administrative and Support Service Activities	-	-	17.393	-	63.078	-	-	5.073	-	-	-	-	15.049	17.941	<b>118.534</b>
Agriculture, Forestry and Fishing	-	-	26.682	-	99.678	-	-	1.168	-	-	-	-	14.718	51.141	<b>193.387</b>
Arts, Entertainment and Recreation	-	-	72.883	-	56.642	-	-	6.059	-	-	-	-	33.762	60.488	<b>229.834</b>
Central Government and Public Administration	3.506.006	-	-	-	10.077	-	-	-	-	-	40.465	73.756	-	-	<b>3.630.304</b>
Construction	-	-	307.572	-	492.060	-	-	2.158.473	-	-	-	-	40.773	87.769	<b>3.086.647</b>
Education	-	-	21.396	-	18.076	-	-	-	-	-	-	-	11.028	37.858	<b>88.358</b>

**6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class (continued)**

	Central governments or central banks	Collective investment undertakings (CIU)	Corporates	Equity	Exposures in default	Institutions	International Organisations	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Total
2014	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Electricity, Gas, Steam and Air Conditioning Supply	-	-	7.882	793	2.340	-	-	-	-	-	-	-	2.933	4.028	<b>17.976</b>
Financial and Insurance Activities	-	789	218.602	147.782	779.397	1.617.227	-	56.704	-	39.323	-	-	21.425	82.886	<b>2.964.135</b>
Human Health and Social Work Activities	-	-	23.354	-	75.462	-	-	1.363	-	-	-	-	46.993	86.235	<b>233.407</b>
Information and Communication	-	-	113.454	-	33.269	-	-	-	-	-	-	-	13.739	28.774	<b>189.236</b>
Manufacturing	-	-	208.983	156	295.528	-	-	3.690	-	-	-	-	67.550	140.967	<b>716.874</b>
Mining and Quarrying	-	-	17.762	-	42.104	-	-	3.329	-	-	-	-	1.493	2.248	<b>66.936</b>
Other Items	-	-	-	-	-	-	-	-	-	1.525.045	-	-	-	-	<b>1.525.045</b>
Other Service Activities	-	-	240.185	1.498	78.501	-	-	2.268	-	-	-	-	48.209	27.387	<b>398.048</b>
Private Individuals	-	-	341.631	-	1.696.537	-	-	85.890	-	-	-	-	1.770.690	2.502.029	<b>6.396.777</b>
Professional, Scientific and Technical Activities	-	-	159.204	-	174.349	-	-	12.573	-	-	-	-	65.021	93.301	<b>504.448</b>

**6.3.2 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Industry and Exposure Class (continued)**

	Central governments or central banks	Collective investment undertakings (CIU)	Corporates	Equity	Exposures in default	Institutions	International Organisations	Items associated with particularly high risk	Multilateral development banks	Other items	Public sector entities	Regional governments or local authorities	Retail	Secured by mortgages on immovable property	Total
2014	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Real Estate															
Activities	-	-	322.532	-	390.725	-	-	1.532.035	-	-	-	-	57.986	194.522	<b>2.497.800</b>
Transportation and Storage	-	-	64.349	1	81.563	-	-	2.271	-	-	-	-	15.740	27.889	<b>191.813</b>
Water Collection, Treatment and Supply	-	-	6.729	-	2.668	-	-	-	-	-	-	-	1.923	5.984	<b>17.304</b>
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	-	-	588.478	1	766.839	-	-	99.938	-	-	-	-	237.607	453.818	<b>2.146.681</b>
<i>All industry groups - of which SME</i>	-	-	1.685	3	2.090	-	-	2.255	-	-	-	-	620	915	<b>7.568</b>
<b>Total</b>	<b>3.506.006</b>	<b>789</b>	<b>3.285.856</b>	<b>150.255</b>	<b>5.700.054</b>	<b>1.617.227</b>	<b>12.063</b>	<b>3.983.222</b>	<b>12.832</b>	<b>1.564.368</b>	<b>40.465</b>	<b>73.756</b>	<b>2.531.360</b>	<b>3.994.236</b>	<b>26.472.489</b>



**6.4 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Residual Maturity and by Exposure Class**

<b>2015</b>	<b>On demand and up to one month</b>	<b>Between one and three months</b>	<b>Between three months and one year</b>	<b>Between one and five years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Exposure Portfolio</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Central governments or central banks	21.583	1.298.662	269.578	460.819	134.544	2.185.186
Collective investment undertakings (CIU)	-	-	-	-	107	107
Corporates	26.418	79.745	322.635	1.175.147	1.253.079	2.857.024
Equity	-	-	-	-	132.325	132.325
Exposures in default	2.282.534	17.302	87.757	1.159.589	1.458.668	5.005.850
Institutions	869.797	309.818	39.548	121.117	2.774	1.343.054
International organisations	-	-	-	-	11.923	11.923
Items associated with particularly high risk	1.052.761	35.718	156.311	838.215	643.597	2.726.602
Multilateral development banks	-	-	10.912	-	-	10.912
Other items	997	13.637	-	12.673	1.287.100	1.314.407
Public sector entities	5	-	90	10	40.153	40.258
Regional governments or local authorities	16	24	387	3.568	61.196	65.191
Retail	7.075	23.726	48.506	717.646	1.746.398	2.543.351
Secured by mortgages on immovable property	13.656	34.389	101.409	919.113	3.364.014	4.432.581
Covered bonds	-	-	6.782	6.796	1	13.579
<b>Total</b>	<b>4.274.842</b>	<b>1.813.021</b>	<b>1.043.915</b>	<b>5.414.693</b>	<b>10.135.879</b>	<b>22.682.350</b>

Residual maturity is the remaining number of months/years before an obligation becomes due, according to the existing terms of the agreement.

**6.4 Exposures Post Value Adjustments (before applying Credit Risk Mitigation and after applying Credit Conversion Factors) by Residual Maturity and by Exposure Class (continued)**

<b>2014</b>	<b>On demand and up to one month</b>	<b>Between one and three months</b>	<b>Between three months and one year</b>	<b>Between one and five years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Exposure Portfolio</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Central governments or central banks	59.966	1.091.219	1.301.656	431.910	621.255	3.506.006
Collective investment undertakings (CIU)	-	-	-	-	789	789
Corporates	96.152	69.861	103.999	1.447.451	1.568.393	3.285.856
Equity	-	-	-	-	150.255	150.255
Exposures in default	2.211.764	97.400	101.520	1.276.768	2.012.602	5.700.054
Institutions	804.524	507.370	175.756	77.355	52.222	1.617.227
International organisations	-	-	-	-	12.063	12.063
Items associated with particularly high risk	1.364.179	47.162	240.731	1.201.588	1.129.562	3.983.222
Multilateral development banks	-	-	2.577	-	10.255	12.832
Other items	-	411	-	-	1.563.957	1.564.368
Public sector entities	-	-	-	9	40.456	40.465
Regional governments or local authorities	-	1	39	5.243	68.473	73.756
Retail	6.103	15.919	95.776	810.292	1.603.270	2.531.360
Secured by mortgages on immovable property	28.508	16.154	46.816	639.530	3.263.228	3.994.236
<b>Total</b>	<b>4.571.196</b>	<b>1.845.497</b>	<b>2.068.870</b>	<b>5.890.146</b>	<b>12.096.780</b>	<b>26.472.489</b>

Residual maturity is the remaining number of months/years before an obligation becomes due, according to the existing terms of the agreement.

## 6.5 Impaired and Past Due Exposures by Economic Activity

### (a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity

	Impaired exposures	Past due but not impaired exposures	Total
2015	€000	€000	€000
Agriculture, forestry and fishing	57.216	37.061	94.277
Mining and quarrying	37.537	996	38.533
Manufacturing	166.599	105.290	271.889
Electricity, gas, steam and air-conditioning supply	1.449	3.223	4.672
Water supply, sewerage, waste management and remediation activities	399	2.530	2.929
Construction	1.401.358	418.123	1.819.481
Wholesale and retail trade, repair of motor vehicles and motorcycles	410.239	332.559	742.798
Transportation and storage	85.883	18.799	104.682
Accommodation and food service activities	361.892	114.785	476.677
Information and communication	32.343	21.306	53.649
Financial and insurance activities	215.786	17.038	232.824
Real estate activities	698.500	292.215	990.715
Professional, scientific and technical activities	165.596	140.754	306.350
Administrative and support service activities	45.384	18.603	63.987
Public administration and defence; compulsory social security	1.265	38	1.303
Education	16.214	9.348	25.562
Human health and social work activities	37.725	51.348	89.073
Arts, entertainment and recreation	21.372	40.492	61.864
Other service activities	12.300	520	12.820
Private individuals	793.776	1.124.565	1.918.341
<b>Total</b>	<b>4.562.833</b>	<b>2.749.593</b>	<b>7.312.426</b>

**6.5 Impaired and Past Due Exposures by Economic Activity** (continued)

**(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity** (continued)

	<b>Impaired exposures</b>	<b>Past due but not impaired exposures</b>	<b>Total</b>
<b>2014</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Agriculture, forestry and fishing	61.603	45.291	106.894
Mining and quarrying	39.087	4.075	43.162
Manufacturing	198.157	150.113	348.270
Electricity, gas, steam and air-conditioning supply	565	3.080	3.645
Water supply, sewerage, waste management and remediation activities	143	3.831	3.974
Construction	1.604.017	661.294	2.265.311
Wholesale and retail trade, repair of motor vehicles and motorcycles	592.522	382.097	974.619
Transportation and storage	80.982	31.256	112.238
Accommodation and food service activities	307.288	342.315	649.603
Information and communication	35.210	20.462	55.672
Financial and insurance activities	815.833	76.232	892.065
Real estate activities	599.253	505.759	1.105.012
Professional, scientific and technical activities	129.721	99.680	229.401
Administrative and support service activities	44.765	29.354	74.119
Public administration and defence; compulsory social security	1.654	1.682	3.336
Education	14.628	17.819	32.447
Human health and social work activities	9.479	42.357	51.836
Arts, entertainment and recreation	22.744	23.468	46.212
Other service activities	89.892	57.970	147.862
Private individuals	795.095	1.441.591	2.236.686
Activities of extraterritorial organisations and bodies	-	53	53
<b>Total</b>	<b>5.442.638</b>	<b>3.939.779</b>	<b>9.382.417</b>

## 6.5 Impaired and Past Due Exposures by Economic Activity (continued)

### (b) Provisions for impairment of impaired and past due exposures by economic activity

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition <sup>20</sup>	Total provisions including fair value adjustment on initial recognition
<b>2015</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Trade	395.792	57.239	453.031	121.192	574.223
Manufacturing	172.294	20.078	192.372	31.596	223.968
Hotels and restaurants	249.455	15.003	264.458	77.444	341.902
Construction	1.009.214	58.298	1.067.512	335.803	1.403.315
Real estate	532.232	41.211	573.443	137.185	710.628
Private individuals	647.102	234.812	881.914	268.496	1.150.410
Professional and other services	463.298	39.891	503.189	101.913	605.102
Other Sectors	237.853	19.661	257.514	133.781	391.295
<b>Total</b>	<b>3.707.240</b>	<b>486.193</b>	<b>4.193.433</b>	<b>1.207.410</b>	<b>5.400.843</b>

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition <sup>20</sup>	Total provisions including fair value adjustment on initial recognition
<b>2014</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Trade	261.897	81.823	343.720	169.687	513.407
Manufacturing	136.672	34.288	170.960	46.564	217.524
Hotels and restaurants	186.890	23.949	210.839	94.943	305.782
Construction	657.969	77.805	735.774	407.901	1.143.675
Real estate	315.337	49.672	365.009	170.448	535.457
Private individuals	462.927	356.383	819.310	336.364	1.155.674
Professional and other services	368.222	70.983	439.205	122.444	561.649
Other Sectors	367.096	35.935	403.031	217.760	620.791
<b>Total</b>	<b>2.757.010</b>	<b>730.838</b>	<b>3.487.848</b>	<b>1.566.111</b>	<b>5.053.959</b>

The tables above do not include provisions for financial guarantees and undrawn contractual commitments of €44.348 thousand (2014: €85.751 thousand).

<sup>20</sup> The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. This adjustment has decreased the gross balance of loans and advances to customers.

## 6.6 Impaired and Past Due Exposures by Geographic Area

### (a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by geographic area<sup>21</sup>

	Impaired exposures	Past due but not impaired exposures	Total
<b>2015</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cyprus	3.936.853	2.534.426	6.471.279
Greece	32.670	8.224	40.894
Russia	69.057	34.672	103.729
United Kingdom	113.513	103.464	216.977
Romania	239.254	3.800	243.054
Other countries	171.486	65.007	236.493
<b>Total</b>	<b>4.562.833</b>	<b>2.749.593</b>	<b>7.312.426</b>

	Impaired exposures	Past due but not impaired exposures	Total
<b>2014</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cyprus	4.740.095	3.860.152	8.600.247
Greece	82.537	-	82.537
Russia	181.710	32.690	214.400
United Kingdom	6.610	14.145	20.755
Romania	378.123	32.792	410.915
Other countries	53.563	-	53.563
<b>Total</b>	<b>5.442.638</b>	<b>3.939.779</b>	<b>9.382.417</b>

### (b) Provisions for impairment of impaired and past due exposures by geographic area

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition	Total provisions including fair value adjustment on initial recognition
<b>2015</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cyprus	3.255.398	476.352	3.731.750	1.140.446	4.872.196
Greece	29.458	4.375	33.833	22.583	56.416
Russia	194.805	212	195.017	-	195.017
United Kingdom	36.096	3.299	39.395	9.808	49.203
Romania	191.483	1.955	193.438	34.573	228.011
<b>Total</b>	<b>3.707.240</b>	<b>486.193</b>	<b>4.193.433</b>	<b>1.207.410</b>	<b>5.400.843</b>

<sup>21</sup> Country of residence of the obligor.

## 6.6 Impaired and Past Due Exposures by Geographic Area (continued)

### (b) Provisions for impairment of impaired and past due exposures by geographic area (continued)

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition	Total provisions including fair value adjustment on initial recognition
2014	€000	€000	€000	€000	€000
Cyprus	2.274.162	593.183	2.867.345	1.445.319	4.312.664
Greece	9.275	-	9.275	74.883	84.158
Russia	286.924	128.970	415.894	-	415.894
United Kingdom	45.697	4.424	50.121	10.655	60.776
Romania	140.952	4.261	145.213	35.254	180.467
<b>Total</b>	<b>2.757.010</b>	<b>730.838</b>	<b>3.487.848</b>	<b>1.566.111</b>	<b>5.053.959</b>

The tables above do not include provision for financial guarantees and undrawn contractual commitments of €44.348 thousand (2014: €85.751 thousand).

## 6.7 Loans and Advances on the Basis of the Residency of the Counterparty

The following table presents customer loans and advances split by residency of the counterparty. The table is presented using figures per the Consolidated Financial Statements for year 2015.

	Loans and advances <sup>22</sup>	Total accumulated provisions	Carrying value
2015	€000	€000	€000
Cyprus	18.462.487	3.516.700	14.945.787
Greece	153.676	58.821	94.855
United Kingdom	1.674.860	152.071	1.522.789
Netherlands	486	52	434
Romania	385.381	194.672	190.709
Russia	390.936	208.125	182.811
Ukraine	52.537	16.849	35.688
Other	264.702	46.143	218.559
<b>Total</b>	<b>21.385.065</b>	<b>4.193.433</b>	<b>17.191.632</b>

<sup>22</sup> After taking into account the fair value adjustment on initial recognition.

## 6.7 Loans and Advances on the Basis of the Residency of the Counterparty (continued)

	Loans and advances	Total accumulated provisions	Carrying value
<b>2014</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cyprus	18.750.213	2.752.577	15.997.636
Greece	210.803	32.217	178.586
United Kingdom	1.268.617	89.888	1.178.729
Netherlands	633	99	534
Romania	406.925	142.704	264.221
Russia	1.135.312	425.217	710.095
Ukraine	105.540	12.892	92.648
Other	327.958	32.254	295.704
<b>Total</b>	<b>22.206.001</b>	<b>3.487.848</b>	<b>18.718.153</b>

## 6.8 Exposures covered by Eligible Financial Collateral and Credit Protection

	Eligible Financial Collateral	Credit Protections	Total
<b>2015</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Corporates	262.021	2.387	<b>264.408</b>
Exposures in default	65.787	13.324	<b>79.111</b>
Institutions	2.496	-	<b>2.496</b>
Items associated with particularly high risk	51.691	4.105	<b>55.796</b>
Public sector entities	4.240	-	<b>4.240</b>
Regional governments or local authorities	14.457	43.834	<b>58.291</b>
Retail	224.986	2.075	<b>227.061</b>
Secured by mortgages on immovable property	107.675	1.020	<b>108.695</b>
<b>Total</b>	<b>733.353</b>	<b>66.745</b>	<b>800.098</b>

<b>2014</b>			
Central governments or central banks	13	-	<b>13</b>
Corporates	288.445	2.222	<b>290.667</b>
Exposures in default	78.033	667	<b>78.700</b>
Institutions	59.080	12.847	<b>71.927</b>
Items associated with particularly high risk	88.794	-	<b>88.794</b>
Public sector entities	461	-	<b>461</b>
Regional governments or local authorities	7.369	58.527	<b>65.896</b>
Retail	226.187	298	<b>226.485</b>
Secured by mortgages on immovable property	85.583	-	<b>85.583</b>
<b>Total</b>	<b>833.965</b>	<b>74.561</b>	<b>908.526</b>



## 6.9 Credit Risk Adjustments

### 6.9.1 Provisions for Impairment of Loans and Advances to Customers

The movement of provisions for impairment of loans and advances to customers is as follows:

	Cyprus	Greece	Russia	Other countries	Total
<b>2015</b>	€000	€000	€000	€000	€000
1 January	2.867.345	9.275	415.894	195.334	<b>3.487.848</b>
Disposal of Russian operations	-	-	(238.012)	-	<b>(238.012)</b>
Foreign exchange and other adjustments	80.372	-	(310)	1.538	<b>81.600</b>
Transfer between geographical areas	(63.380)	6.329	-	57.051	-
Applied in writing off impaired loans and advances	(151.812)	(16.700)	(62.313)	(63.022)	<b>(293.847)</b>
Interest accrued on impaired loans and advances	(197.009)	(2.134)	(146)	(1.430)	<b>(200.719)</b>
Collection of loans and advances previously written off	2.671	-	-	5.270	<b>7.941</b>
Charge for the year – continuing operations	1.193.563	37.063	37.239	38.092	<b>1.305.957</b>
Charge for the year - discontinued operations	-	-	42.665	-	<b>42.665</b>
<b>31 December</b>	<b>3.731.750</b>	<b>33.833</b>	<b>195.017</b>	<b>232.833</b>	<b>4.193.433</b>
<b>Individual impairment</b>	<b>3.255.398</b>	<b>29.458</b>	<b>194.805</b>	<b>227.579</b>	<b>3.707.240</b>
<b>Collective impairment</b>	<b>476.352</b>	<b>4.375</b>	<b>212</b>	<b>5.254</b>	<b>486.193</b>

<b>2014</b>					
1 January	2.554.672	189	286.366	235.043	<b>3.076.270</b>
Disposal of Ukrainian operations	-	-	-	(137.645)	<b>(137.645)</b>
Foreign exchange and other adjustments	27.764	-	(134.406)	(10.567)	<b>(117.209)</b>
Applied in writing off impaired loans and advances	(46.976)	(12)	(187)	(57)	<b>(47.232)</b>
Interest accrued on impaired loans and advances/settlements	(162.213)	(1.071)	(301)	(7.136)	<b>(170.721)</b>
Collection of loans and advances previously written off	230	-	-	1.267	<b>1.497</b>
Charge for the year – continuing operations	493.868	10.169	151.294	75.901	<b>731.232</b>
Charge for the year - discontinued operations	-	-	113.128	38.528	<b>151.656</b>
<b>31 December</b>	<b>2.867.345</b>	<b>9.275</b>	<b>415.894</b>	<b>195.334</b>	<b>3.487.848</b>
<b>Individual impairment</b>	<b>2.274.162</b>	<b>9.275</b>	<b>286.924</b>	<b>186.649</b>	<b>2.757.010</b>
<b>Collective impairment</b>	<b>593.183</b>	<b>-</b>	<b>128.970</b>	<b>8.685</b>	<b>730.838</b>

## 6.9.2 Credit Risk Adjustments recorded to Income Statement

### Impairment of financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans

	2015	2014
	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans	<b>(305.089)</b>	(47.338)
<i>Net impairment of other financial instruments</i>		
Available-for-sale debt securities	-	72
Available-for-sale equity securities	<b>1.291</b>	7.237
Available-for-sale mutual funds	<b>1.206</b>	-
Loans and receivables debt securities	<b>(169)</b>	-
Loans and advances to banks	<b>19.604</b>	18.940
Other receivables	<b>21.571</b>	30.291
	<b>43.503</b>	56.540

The gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans arose on settlement of loans acquired in 2013 through the acquisition of certain operations of Laiki Bank, at an amount which is higher than their carrying amount on settlement date and on changes in expectations of future cash flows on acquired loans compared to the initial expectations.

## 6.10 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

Rescheduled loans and advances are those facilities for which the Group has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

**6.10 Forbearance** (continued)

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

## 6.10 Forbearance (continued)

*Rescheduled loans and advances to customers*

The following table is presented using the Consolidated Financial Statements for year 2015:

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>2015</b>	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	3.636.868	-	-	84.829	60.182	<b>3.781.879</b>
Past due but not impaired	1.591.934	-	699	29.229	297	<b>1.622.159</b>
Impaired	3.162.822	24.865	137.677	2.174	58.706	<b>3.386.244</b>
	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>
<b>2014</b>						
Neither past due nor impaired	2.546.020	-	61.677	109.269	70.899	<b>2.787.865</b>
Past due but not impaired	1.764.528	-	16.468	21.814	3.247	<b>1.806.057</b>
Impaired	2.714.299	75.778	156.514	5.338	110.439	<b>3.062.368</b>
	<b>7.024.847</b>	<b>75.778</b>	<b>234.659</b>	<b>136.421</b>	<b>184.585</b>	<b>7.656.290</b>

## 7. Asset Encumbrance

Asset encumbrance means pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

### 7.1 Encumbered and Unencumbered Assets by Asset Type

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2015	€000	€000	€000	€000
<b>Assets of the reporting institution</b>	<b>14.023.263</b>	<b>n/a</b>	<b>7.753.936</b>	<b>n/a</b>
Equity instruments	1.027	1.027	91.644	<b>91.644</b>
Debt securities	891.701	900.287	24.915	<b>24.915</b>
Other Assets <sup>23</sup>	13.130.535	n/a	7.637.377	<b>n/a</b>

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2014	€000	€000	€000	€000
<b>Assets of the reporting institution</b>	<b>16.312.764</b>	<b>n/a</b>	<b>8.877.515</b>	<b>n/a</b>
Equity instruments	-	-	32.603	32.603
Debt securities	2.435.766	2.447.482	72.553	139.437
Other Assets <sup>23</sup>	13.876.998	n/a	8.772.359	n/a

n/a: per EBA guidelines, no disclosure required.

An asset is classified as encumbered if it has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. An asset is categorised as unencumbered if it has not been pledged against an existing liability.

The vast majority of encumbered assets are within the Bank of Cyprus (Cyprus). Of the unencumbered assets around 40% (2014: 50%) are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in the 2015 Additional Risk and Capital Management Disclosures included in the 2015 Annual Report.

<sup>23</sup> Other assets consist of cash and bank placements, loans and advances and property.

## 7.2 Collateral Received by Product Type

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
2015	€000	€000
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	1.056.720	-

2014		
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	1.007.446	-

## 7.3 Encumbered Assets/Collateral Received and Associated Liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
2015	€000	€000
Carrying amount of selected financial liabilities	4.903.759	15.079.983 <sup>24</sup>

2014		
Carrying amount of selected financial liabilities	8.942.964	17.320.210 <sup>24</sup>

The total on balance sheet encumbered assets of the Group amounted to €14.023.263 thousand as at 31 December 2015 (2014: €16.312.764 thousand). In addition as at 31 December 2015 and 2014, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand (fair value: €1.056.720 thousand and €1.007.446 thousand, as at 31 December 2015 and 2014, respectively) are pledged as collateral for obtaining funding from the CBC.

<sup>24</sup> It includes the carrying value of balance sheet encumbered assets and the fair value of bonds guaranteed by the Cyprus government.

### 7.3 Encumbered Assets/Collateral Received and Associated Liabilities (continued)

The on balance sheet encumbered assets primarily consist of loans and advances to customers, investments in debt securities, primarily Cyprus Government bonds, and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as supplementary assets for covered bonds. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA agreements, which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (a) derivatives and repurchase transactions (b) trade finance transactions and guarantees issued and (c) covered bonds.

Following a restructuring in 2015 of the Covered Bond Programme, as part of which €350 million of the €1.000 million retained covered bond was repurchased and cancelled, the credit rating of the covered bond was upgraded and in October 2015 it was placed as collateral for accessing funding from the ECB. Prior to the rating upgrade the covered bond was used as collateral for ELA.

In the case of ELA, however, as collateral is not usually released upon repayment of funding, there may be an inherent buffer which could be utilised for further funding if required.

## 8. External Credit Assessment Institutions (ECAIs) used for calculating Risk-Weighted Assets under the Standardised Approach

### 8.1 Application of External Ratings from Recognised ECAIs

For the Group's exposure classes listed below, Moody's external credit ratings have been applied.

- Exposures to central governments or central banks.
- Exposures to regional governments or local authorities.
- Exposures to public sector entities.
- Exposures to multilateral development banks.
- Exposures to institutions.
- Exposures to corporates.
- Claims in the form of collective investment undertakings.

The general ECAI association with each credit quality step complies with the standard association published by the CBC, as at 31 December 2015 and 2014, as follows:

Credit Quality Step	Moody's Rating	Institutions Risk Weight <sup>25</sup>		Sovereigns Risk Weight	Corporate Risk Weight
		Residual Maturity up to 3 months	Residual Maturity more than 3 months <sup>26</sup>		
1	Aaa to Aa3	20%	20%	0%	20%
2	A1 to A3	20%	50%	20%	50%
3	Baa1 to Baa3	20%	50%	50%	100%
4	Ba1 to Ba3	50%	100%	100%	100%
5	B1 to B3	50%	100%	100%	150%
6	Caa1 or lower	150%	150%	150%	150%

Exposures without an available Moody's credit rating are considered to be unrated.

<sup>25</sup> The same risk weight association applies to exposures to regional governments, public sector entities and multilateral development banks.

<sup>26</sup> The same risk weight association applies to exposures in the form of CIUs for all maturities.

## 8.2 Transfer of Credit Assessments onto Items not included in the Trading Book

For exposures to regional governments or local authorities, public sector entities and institutions, the ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.
3. Sovereign.

For exposures to central governments or central banks, multilateral development banks, corporates and CIUs, the ECAIs are applied in the following priority:

1. Issue/Exposure.
2. Issuer/Counterparty.

The ECAIs are not taken into account where all relative exceptions per the CRR apply.

## 8.3 Exposures Post Value Adjustments, after applying Credit Conversion Factors, before and after Credit Risk Mitigation

The exposure amounts for exposure classes for which, a Credit Quality Step (rating), is irrespective to the Risk Weights applied (Article 114 of the CRR) have been categorised as unrated. Similarly the exposures in multilateral development banks are within the list of organisations of point 2, of Article 177 of the CRR and are assigned a 0% Risk Weight and are therefore categorised as Credit Quality Step 1. Exposures in international organisations meet the requirements of Article 188 of the CRR and are assigned a 0% Risk Weight and are therefore categorised as Credit Quality Step 1.

### 8.3.1 Exposures Post Value Adjustments, after applying Credit Conversion Factors and before Credit Risk Mitigation

The classification of exposures in the tables below follows from Sections 8.1 and 8.2 above.

	1	2	3	4	5	6	Uniform Regulatory Treatment	Grand Total
2015	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	2.185.171	-	15	-	-	-	-	2.185.186
Collective investment undertakings (CIU)	-	-	-	-	-	-	107	107
Corporates	-	-	-	-	-	-	2.857.024	2.857.024
Equity	-	-	-	-	-	-	132.325	132.325
Exposures in default	-	-	-	-	-	-	5.005.850	5.005.850
Institutions	1.087.673	98.207	1.595	74.081	16.501	64.987	10	1.343.054
International organisations	11.923	-	-	-	-	-	-	11.923
Items associated with particularly high risk	-	-	-	-	-	-	2.726.602	2.726.602
Multilateral development banks	10.912	-	-	-	-	-	-	10.912
Other items	-	-	-	-	-	-	1.314.407	1.314.407
Public sector entities	40.258	-	-	-	-	-	-	40.258
Regional governments or local authorities	65.191	-	-	-	-	-	-	65.191
Retail	-	-	-	-	-	-	2.543.351	2.543.351
Secured by mortgages on immovable property	-	-	-	-	-	-	4.432.581	4.432.581
Covered bonds	13.579	-	-	-	-	-	-	13.579
<b>Total</b>	<b>3.414.707</b>	<b>98.207</b>	<b>1.610</b>	<b>74.081</b>	<b>16.501</b>	<b>64.987</b>	<b>19.012.257</b>	<b>22.682.350</b>



**8.3.1 Exposures Post Value Adjustments, after applying Credit Conversion Factors and before Credit Risk Mitigation** (continued)

	1	2	3	4	5	6	Uniform Regulatory Treatment	Grand Total
2014	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	3.466.370	-	39.636	-	-	-	-	<b>3.506.006</b>
Collective investment undertakings (CIU)	-	-	-	-	-	-	789	<b>789</b>
Corporates	-	-	-	-	1.481	-	3.284.375	<b>3.285.856</b>
Equity	-	-	-	-	-	-	150.255	<b>150.255</b>
Exposures in default	-	-	-	-	-	-	5.700.054	<b>5.700.054</b>
Institutions	1.479.420	84.919	37.724	12.953	323	1.888	-	<b>1.617.227</b>
International organisations	12.063	-	-	-	-	-	-	<b>12.063</b>
Items associated with particularly high risk	-	-	-	-	-	-	3.983.222	<b>3.983.222</b>
Multilateral development banks	12.832	-	-	-	-	-	-	<b>12.832</b>
Other items	-	-	-	-	-	-	1.564.368	<b>1.564.368</b>
Public sector entities	40.465	-	-	-	-	-	-	<b>40.465</b>
Regional governments or local authorities	73.756	-	-	-	-	-	-	<b>73.756</b>
Retail	-	-	-	-	-	-	2.531.360	<b>2.531.360</b>
Secured by mortgages on immovable property	-	-	-	-	-	-	3.994.236	<b>3.994.236</b>
<b>Total</b>	<b>5.084.906</b>	<b>84.919</b>	<b>77.360</b>	<b>12.953</b>	<b>1.804</b>	<b>1.888</b>	<b>21.208.659</b>	<b>26.472.489</b>

### 8.3.2 Exposures Post Value Adjustments, after applying Credit Conversion Factors and after Credit Risk Mitigation (it includes exposures covered by eligible credit protection)

The classification of exposures in the tables below follows from Sections 8.1 and 8.2 above.

	1	2	3	4	5	6	Uniform Regulatory treatment	Grand Total
2015	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	2.239.835	-	15	-	-	-	-	<b>2.239.850</b>
Collective investments undertakings (CIU)	-	-	-	-	-	-	107	<b>107</b>
Corporates	-	-	-	-	-	-	2.854.638	<b>2.854.638</b>
Equity	-	-	-	-	-	-	132.325	<b>132.325</b>
Exposures in default	-	-	-	-	-	-	4.992.527	<b>4.992.527</b>
Institutions	1.099.736	98.207	1.595	74.081	16.517	64.987	10	<b>1.355.133</b>
International organisations	11.923	-	-	-	-	-	-	<b>11.923</b>
Items associated with particular high risk	-	-	-	-	-	-	2.722.497	<b>2.722.497</b>
Multilateral development banks	10.912	-	-	-	-	-	-	<b>10.912</b>
Other items	-	-	-	-	-	-	1.314.407	<b>1.314.407</b>
Public sector entities	40.258	-	-	-	-	-	-	<b>40.258</b>
Regional governments or local authorities	21.203	-	-	-	-	-	-	<b>21.203</b>
Retail	-	-	-	-	-	-	2.541.276	<b>2.541.276</b>
Secured by mortgages on immovable property	-	-	-	-	-	-	4.431.715	<b>4.431.715</b>
Covered bonds	13.579	-	-	-	-	-	-	<b>13.579</b>
<b>Total</b>	<b>3.437.446</b>	<b>98.207</b>	<b>1.610</b>	<b>74.081</b>	<b>16.517</b>	<b>64.987</b>	<b>18.989.502</b>	<b>22.682.350</b>

**8.3.2 Exposures Post Value Adjustments, after applying Credit Conversion Factors and after Credit Risk Mitigation (it includes exposures covered by eligible credit protection) (continued)**

	1	2	3	4	5	6	Uniform Regulate	Grand Total
2014	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	3.527.167	-	39.636	-	-	-	-	<b>3.566.803</b>
Collective investments undertakings (CIU)	-	-	-	-	-	-	789	<b>789</b>
Corporates	-	-	-	-	1.481	-	3.282.152	<b>3.283.633</b>
Equity	-	-	-	-	-	-	150.255	<b>150.255</b>
Exposures in default	-	-	-	-	-	-	5.699.386	<b>5.699.386</b>
Institutions	1.480.098	84.919	37.724	12.953	504	1.888	-	<b>1.618.086</b>
International organisations	12.063	-	-	-	-	-	-	<b>12.063</b>
Items associated with particular high risk	-	-	-	-	-	-	3.983.222	<b>3.983.222</b>
Multilateral development banks	12.832	-	-	-	-	-	-	<b>12.832</b>
Other items	-	-	-	-	-	-	1.564.369	<b>1.564.369</b>
Public sector entities	40.465	-	-	-	-	-	-	<b>40.465</b>
Regional governments or local authorities	15.383	-	-	-	58	-	-	<b>15.441</b>
Retail	-	-	-	-	-	-	2.531.063	<b>2.531.063</b>
Secured by mortgages on immovable property	-	-	-	-	-	-	3.994.082	<b>3.994.082</b>
<b>Total</b>	<b>5.088.008</b>	<b>84.919</b>	<b>77.360</b>	<b>12.953</b>	<b>2.043</b>	<b>1.888</b>	<b>21.205.318</b>	<b>26.472.489</b>

## 9. Exposures in Equities not included in the Trading Book

The Group holds certain legacy equity securities are actively managed down. The Group also had certain equity securities obtained from customers in satisfaction of debt, as well as certain venture capital investments.

Listed equity securities are measured at fair value, being the market value of these securities on a recognised stock exchange. Unlisted securities are also measured at fair value (except for certain securities that are carried at cost), which is determined using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. These models are periodically reviewed by qualified personnel. Further information on fair value measurement is disclosed in Note 22 of the Consolidated Financial Statements for year 2015.

Of the total equity securities held by the Group as at 31 December 2015, €59.292 thousand (2014: €14.081 thousand) were classified as available for sale and €4.018 thousand (2014: €991 thousand) were classified as at fair value through profit or loss.

The balance sheet value of the Group's equity securities not included in the trading book at 31 December 2015 was €63.310 thousand (2014: €15.072 thousand), analysed as follows:

	2015	2014
	€000	€000
Listed on the CSE	8.737	12.452
Listed on other stock exchanges	271	1.471
Other unlisted	54.302	1.149
<b>Total</b>	<b>63.310</b>	<b>15.072</b>

There is no difference between the fair value and the balance sheet value of equity securities.

The net realised gain from disposals of available for sale equity securities during 2015 amounted to €1.075 thousand (2014: €48.907 thousand) and was included in the Consolidated Income Statement. As at 31 December 2015 the available for sale revaluation reserve for equity securities of the Group amounted to €47.877 thousand (2014: €5.810 thousand), net of tax. In addition, the Group recorded an impairment charge on available-for-sale equity securities of €1.291 thousand and (2014: €7.237 thousand) in the Consolidated Income Statement.

The increase in other unlisted equity securities is primarily due to revaluation gain during the year.

## 10. Exposure to Interest Rate Risk on Positions not included in the Trading Book

### 10.1 Nature of the Interest Rate Risk and Key Assumptions

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. It arises as a result of timing differences on the repricing of assets, liabilities and off balance sheet items.

Interest rate risk is measured using interest rate sensitivity gap analysis. The assets and liabilities in each currency are placed in time bands, according to the number of days remaining from the reporting date until their next repricing date. Assets and liabilities that are not sensitive to rate changes are recognised as Non Rate Sensitive (NRS) items. The difference between assets and liabilities repricing in each time band (GAP) is then calculated. The gaps are the starting point in calculating the impact on net interest income. A rate change is applied on each item of the balance sheet for the number of days between its repricing date and the one year horizon in order to calculate the impact on net interest income.

### 10.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

Given the linkage of the Bank's base rate for loans to the CBC deposit index, the EUR balance sheet is decomposed into two separate balance sheets as per below (the foreign currency balance sheets are not subject to the below decomposition):

1. Balance sheet 1: Bank Base Rate balance sheet where only bank base rate loans and deposits are included.
2. Balance sheet 2: Euribor and ECB balance sheet where all items of the balance sheet except deposits and bank base rate loans are included.

The above decomposition is considered necessary given that different rate shocks/scenarios are applied to each of the balance sheets above as per below<sup>27</sup>.

The calculations are performed under the following scenarios:

#### A. Rate shocks for EUR:

- **Bank Base Rate Balance Sheet [1]**

+/- 1% interest rate change with floor of 0% for:

- i. bank base rate loans.
- ii. demand, guarantee, savings, time (notice and fixed) deposits.

- **Euribor and ECB Bank Base Rate Balance Sheet [2]**

+ /- 0.5% interest rate change without applying a floor of 0%. A floor of 0% will only apply to ECB marginal lending rate to which ELA funding is referenced.

In the case of the EUR balance sheet for BOC Cyprus (which is the greatest part of the Group balance sheet) an additional scenario is also run based on expected rate changes as follows:

- a) parallel -0.25% change in ECB and Bank base rate and -0.1% change in the Euribor sensitive items of the balances sheet and
- b) parallel +0.25% change for all items of the balance sheet.

MR department is authorised to change the EUR rate shocks of this scenario depending on the level of the market rates.

#### B. Rate shocks for foreign currency:

+ /- 1% interest rate change with application of a floor (of 0%) to interest rates for deposits only.

#### C. Stress Test Scenario:

2% parallel shift of interest rates (floor of 0% applies to EUR base rate loans, EUR and foreign currency deposits and ELA funding).

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<sup>27</sup> Changes to interest rates for the two balance sheets are not considered dependant and thus different rate shocks are used.

### 10.1 Nature of the Interest Rate Risk and Key Assumptions (continued)

The main deposit categories offered by the Bank, as well as their current interest rate sensitivity treatment in the repricing GAP report is indicated below:

Type of account		Treatment in GAP report
1.	Current accounts (non-maturing deposits)	Non Rate Sensitive (NRS)
2.	Instant access and savings	Mixed sensitivity <sup>28</sup>
3.	Notice and guarantee accounts	Interest Rate Sensitive
4.	Fixed deposits	Interest Rate Sensitive

The first two deposit categories indicated above are considered inelastic on the basis that a change in the market interest rates will not affect or will only partly affect the interest rate of the respective accounts.

In addition to the above, instant access, savings and notice accounts are treated as reacting quicker to increases in interest rates rather than to decreases in interest rates. This is considered necessary since the Bank is legally obliged to inform the customer (whenever he is adversely affected) with one month notice, for its intention to decrease the interest rate that these accounts carry.

The Bank may at its discretion allow its customers to prepay their loans. However, in the case of loan prepayments, penalty charges to cover any associated cost are usually charged.

Position limits of Bank of Cyprus (Cyprus) are monitored against limits on a daily basis. Interest rate risk exposure limits up to year 3 are managed on a daily basis and monitored against limits on a monthly basis. Bank of Cyprus UK Ltd measure and monitor the interest rate risk exposure on a daily basis whereas the other banking units of the Group on a monthly basis. The Group interest rate risk is monitored on a monthly basis.

### 10.2 Impact of Downward and Upward Rate Shocks

ALCO sets limits on the maximum allowable interest rate risk in the banking book, for each banking unit. The exposure is described below.

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<sup>28</sup> Mixed sensitivity means that these accounts have different interest rate sensitivity characteristics depending on the direction of the change of the interest rates (increase/decrease). The extent of this sensitivity is periodically calibrated.

### 10.2.1 On Earnings

The maximum loss limits apply for each of the first three years. They are set as a percentage of the Group capital and as a percentage of Group net interest income. Approved small limits are in place for open interest rate positions for periods longer than three years.

The table below indicates how the net interest income of the Group, over a one-year period, will be affected given hypothetical changes in the market interest rates of the main currencies:

<b>2015</b>	<b>Euro</b>	<b>US Dollar</b>	<b>British Pound</b>	<b>Other currencies</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Change in interest rates</b>					
Scenario 1: +5% for RUB, +0.75% for USD, +0,5% for all other currencies	<b>14.244</b>	<b>10.281</b>	<b>4.524</b>	<b>(570)</b>	<b>28.479</b>
Scenario 2: -5% for RUB, -0,25% for JPY, -0.5% for EUR Euribor, ECB, -1% for EUR Bank Basic Rate and -0,5% for all other currencies	<b>(24.120)</b>	<b>(7.275)</b>	<b>(3.454)</b>	<b>532</b>	<b>(34.317)</b>

<b>2014</b>					
<b>Change in interest rates</b>					
Scenario 1: +5% for RUB, +0,5% for all other currencies	19.799	5.015	3.835	(5.857)	22.792
Scenario 2: -7% for RUB, -0,25% for GBP, CHF and USD, -0,1% for JPY and EUR and -0,5% for all other currencies	(3.879)	(2.508)	(1.917)	8.019	(285)

### 10.2.2 On Economic Value of Equity

The impact on the economic value of equity is measured for Group positions, given a 200 basis points decrease in market interest rates. ALCO has set a maximum limit of 10% of Group regulatory capital for this change, compared to the 20% regulatory maximum ratio. The change in the economic value of the Group's equity as at the end of December 2015 amounted to minus €13,4 million (-0,49% of Group Tier 1 capital, calculated in accordance with CBC rules). As at the end of December 2014 amounted to €23,6 million (0,67% of Group Tier 1 capital, calculated in accordance with CBC rules).

### 10.2.2 On Economic Value of Equity (continued)

The economic value change of the foreign branches/subsidiaries given a 200 basis points drop in market interest rates as well as a per currency analysis is indicated in the tables below:

#### Group economic value change of the foreign branches/subsidiaries

	<b>Cyprus</b>	<b>Uniastrum Bank</b>	<b>United Kingdom</b>	<b>Romania</b>	<b>Channel Islands</b>	<b>Total</b>
<b>2015</b>						
Change in economic value (€000)	<b>(1.700)</b>	-	<b>(11.278)</b>	<b>(276)</b>	<b>(149)</b>	<b>(13.403)</b>
Change on CET1 (%)	-	-	<b>-8,51%</b>	-	<b>-0,22%</b>	<b>-0,49%</b>

<b>2014</b>						
Change in economic value (€000)	38.465	455	(9.914)	(5.369)	(35)	23.602
Change on CET1 (%)	-	0,48%	-8,17%	-	-0,05%	0,67%



## 10.2.2 On Economic Value of Equity (continued)

### Group Economic value change given a 200 basis points change in market interest rates-currency analysis

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs	5 to 7 yrs	7 to 10 yrs	10 to 15 yrs	15 to 20 yrs	>20 yrs	NRS	Total
2015	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>EUR gaps</b>	(909.718)	4.624.010	701.559	(944.461)	148.571	(475.924)	(61.564)	16.552	80.229	15.340	(258)	3.346	841	(3.191.102)	<b>7.421</b>
Ec. Value change	(758)	15.413	5.262	(14.167)	4.457	(23.606)	(4.285)	1.480	8.681	2.574	(63)	1.144	367	-	<b>(3.501)</b>
<b>USD gaps</b>	1.201.042	121.819	234.117	(114.930)	3.794	(2.711)	4.400	29	5.155	87	-	-	-	(1.453.723)	<b>(921)</b>
Ec. Value change	961	414	1.732	(1.701)	112	(133)	300	3	552	14	-	-	-	-	<b>2.254</b>
<b>GBP gaps</b>	584.950	357.322	(253.359)	(294.543)	(162.133)	(43.499)	-	-	-	-	-	-	-	(187.915)	<b>823</b>
Ec. Value change	468	1.215	(1.875)	(4.359)	(4.799)	(2.131)	-	-	-	-	-	-	-	-	<b>(11.481)</b>
<b>AUD gaps</b>	34.041	(11.616)	(5.524)	(7.087)	-	-	-	-	-	-	-	-	-	(9.780)	<b>34</b>
Ec. Value change	28	(38)	(41)	(104)	-	-	-	-	-	-	-	-	-	-	<b>(155)</b>
<b>Other gaps</b>	19.227	(396)	5.044	(1.083)	-	-	-	-	-	-	-	-	-	(29.572)	<b>(6.780)</b>
Ec. Value change	15	(1)	37	(16)	-	-	-	-	-	-	-	-	-	-	<b>35</b>
<b>RUB gaps</b>	(12.028)	9.683	100.775	(101.824)	373	-	4.059	357	250	-	-	-	-	(1.724)	<b>(79)</b>
Ec. Value change	(9)	29	687	(1.389)	10	-	221	24	24	-	-	-	-	-	<b>(403)</b>
<b>CHF gaps</b>	(200.715)	47.611	(39.731)	(5.784)	252	252	252	252	1.260	-	-	-	-	196.601	<b>250</b>
Ec. Value change	(169)	160	(300)	(87)	8	13	18	23	138	-	-	-	-	-	<b>(196)</b>
<b>JPY gaps</b>	(19.466)	(5.646)	10.721	-	-	-	-	-	-	-	-	-	-	14.575	<b>184</b>
Ec. Value change	(17)	(19)	80	-	-	-	-	-	-	-	-	-	-	-	<b>44</b>
<b>Total Ec. Value change</b>															<b>(13.403)</b>

## 10.2.2 On Economic Value of Equity (continued)

### Group Economic value change given a 200 basis points change in market interest rates-currency analysis (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs	5 to 7 yrs	7 to 10yrs	10 to 15 yrs	15 to 20 yrs	>20 yrs	NRS	Total
2014	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>EUR gaps</b>	3.502.572	744.891	592.652	354.519	609.854	167.634	(447.178)	(64.480)	105.783	75.652	(6.140)	-	729	(5.654.899)	<b>(18.411)</b>
Ec. Value change	2.732	2.533	4.386	5.318	18.174	8.281	(30.855)	(5.713)	11.403	12.543	(1.481)	-	308	-	<b>27.629</b>
<b>USD gaps</b>	758.283	222.786	127.525	(53.276)	10.677	6.362	12.839	4.316	1.390	141	195	-	-	(1.091.885)	<b>(647)</b>
Ec. Value change	591	757	944	(799)	318	314	886	382	150	23	49	-	-	-	<b>3.615</b>
<b>GBP gaps</b>	650.847	203.426	(146.131)	(224.346)	(149.491)	(41.943)	32	-	-	-	-	-	-	(293.270)	<b>(876)</b>
Ec. Value change	521	692	(1.081)	(3.320)	(4.425)	(2.057)	2	-	-	-	-	-	-	-	<b>(9.668)</b>
<b>AUD gaps</b>	35.899	(12.634)	(6.082)	(4.936)	-	-	-	-	-	-	-	-	-	(11.993)	<b>254</b>
Ec. Value change	29	(41)	(44)	(72)	-	-	-	-	-	-	-	-	-	-	<b>(128)</b>
<b>Other gaps</b>	(96.888)	(60.577)	64.511	(151.243)	30.541	15.639	16.109	5.019	5.307	1.300	679	454	47	186.835	<b>17.733</b>
Ec. Value change	(73)	(184)	440	(2.064)	784	638	877	336	504	138	90	70	8	-	<b>1.564</b>
<b>CHF and JPY gaps</b>	(139.313)	26.756	98.906	9.865	(9.135)	-	-	-	-	-	-	-	-	12.393	<b>(528)</b>
Ec. Value change	(109)	91	732	148	(272)	-	-	-	-	-	-	-	-	-	<b>590</b>
<b>Total Ec. Value change</b>															<b>23.602</b>

## **11. Remuneration Policy and Practices**

The Group Remuneration Policy captures provisions from the CSE's Corporate Governance Code (Code) and relevant Directives of the CBC and aims to align the remuneration of directors, Executive Management, officers and staff with the business strategy, objectives and long-term interests of the Group. It is consistent with the effective management of risks and does not encourage excessive risk-taking.

### **11.1 Human Resources and Remuneration Committee (HRRC)**

#### **11.1.1 The Role of the Human Resources and Remuneration Committee**

The HRRC is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the BoD for ratification. In addition, the BoD, through the HRRC, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy.

The role of the HRRC is:

- To ensure that the Group is equipped with the Human Capital necessary for the achievement of its strategic goals and the Organisation and Information capital necessary to effect continuous improvement and create a comparative advantage in the market.
- To set the over-arching principles and parameters of Compensation & benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the non-executive and the executive directors of the Group, other identified staff and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the Directive for the Governance and Management Arrangements issued by the CBC and the Corporate Governance Code of the Cyprus Stock Exchange.

The HRRC:

Defines remuneration of non-executive Directors of the Board and makes appropriate recommendation to the Nominations and Corporate Governance Committee (NCGC), and subsequently to the BoD, for approval by the Annual General Meeting;

Reviews remuneration packages of Identified Staff as follows:

- Executive members of Group BoD (Excluding Group CEO): Reviews their remuneration packages vis-a-vis their performance and makes appropriate recommendations to the NCGC.
- Senior Management that are members of Group Executive Committee, General Managers of major subsidiaries (Eurolife, GIC) and other employees whose total annual remuneration exceeds €120K: Review and approve their remuneration packages, recommended by the CEO.
- Divisional Directors and other staff that report to Board Committees (Risk, Internal Audit, Compliance): Review and approve their remuneration packages, recommended by the Chairmen of Risk and Audit Committees respectively (in consultation with Group CEO and Group HR).
- Country CEOs: Reviews and approves their remuneration (jointly with the Country Board Remuneration Committee), recommended by the Chairman of the Country Board.

#### **11.1.2 Composition and Meetings of the Human Resources and Remuneration Committee**

The HRRC has a minimum of 3 and a maximum of 5 members who are appointed by the BoD on an annual basis. The HRRC must consist entirely of non-executive BoD. He/she must be an Independent Director and cannot chair any other Committees of the Board.

The HRRC holds regular meetings and, additionally, ad hoc meetings whenever called by the Chairman, or any two other members of the Committee. The quorum for a meeting is 2 members or 50% rounded up whichever is the highest. The HRRC keeps detailed minutes of its meetings. The HRRC has authority to obtain independent advice and information from external parties whenever this is considered necessary.

Following the resignation of one non-executive director from the HRRC on the 23 October 2015, the Committee has only two members until the appointment of a new director on the BoD.

#### **11.1.2 Composition and Meetings of the Human Resources and Remuneration Committee (continued)**

The HRRC held eight meetings during 2015. The HRRC submitted a paper which was approved by the BoD, pertaining to Board and Committee member fees and was instrumental in effecting remuneration initiatives to selected staff. The HRRC reviewed and approved the Group's Remuneration Policy, reviewed the Non-Salary Benefits and Allowances Policy and then forwarded to the BoD for approval, and also reviewed and approved the Long Term Investment Plan as presented by the Group CEO.

The HRRC reviewed its Terms of Reference twice in order to ensure continuing appropriateness and full compliance with regulatory compliance. Amongst other things, the Committee reviewed the annual performance appraisals and 360° appraisals of Identified staff, the 2015 Training Plan and the Staff Engagement Survey.

#### **11.1.3 Relevant Stakeholders**

The HRRC ensures that internal control functions (i.e. Internal Audit, RMD and Compliance) and the HR Division are involved in the design, review and implementation of the Remuneration Policy.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Corporate Governance Code as well as the CBC Directive on Governance and Management Arrangements of Credit Institutions which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in CRD IV, as well as regulatory restrictions pertinent to the banking sector currently.

### **11.2 Performance Related Pay**

Due to current regulatory restrictions, the Bank does not currently offer any type of variable remuneration but only fixed remuneration, which comprises salary and any applicable allowances. Additional information on the Group's remuneration policy is set out in the Annual Corporate Governance Report for year 2015. The Annual General Meeting approved a Long Term Incentive Plan (Section 3.3) pending on a number of preconditions that must be met.

### **11.3 Design and Structure of Remuneration**

#### **11.3.1 Non-Executive Directors**

The remuneration of non-executive directors is not linked to the profitability of the Group. The remuneration of non-executive directors is related to the responsibilities and time devoted for BoD meetings and decision-making for the governance of the Group, and for their participation in the Committees of the BoD and the boards of Group subsidiary companies. The shareholders' Annual General Meeting held on 24 November 2015 approved new remuneration as proposed by the HRRC.

#### **11.3.2 Executive Directors**

##### *Remuneration Policy*

The NCGC sets the remuneration of executive directors, following the recommendation of the HRRC (excluding Group CEO). The employment contracts of executive directors are reviewed by the HRRC (unless they are members of the senior management team and their terms of employment are based on the provisions of the collective agreement), and are subsequently submitted to the BoD for approval.

##### *Contracts of Employment*

The remuneration (salary and bonus) of executive directors is set out in their employment contracts which can have a maximum duration of five years, unless any of the executive directors is an appointed member of the senior management team, in which case the terms of employment are based on the provisions of the collective agreement in place.

The employment contract of the CEO is for a further period of two years commencing on 1 February 2016.

The Group at present does not grant guaranteed variable remuneration or discretionary pension payments.

### 11.3.2 Executive Directors (continued)

#### *Service Termination Agreements*

The service contract of the CEO includes a clause for termination, by service of four months' notice to that effect upon the executive director, without cause but at its sole discretion. In such a case the Company shall have the right to pay the director, in lieu of notice for immediate termination.

The terms of employment of Dr. Patsalides are based on the provisions of the collective agreement in place, as with the rest of the employees, which provides for notice or compensation based on years of service.

#### *Bonus*

No bonus was recommended by the BoD for executive directors for year 2015.

#### *Retirement Benefit Schemes*

The CEO and the Finance Director participate in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 13 of the Consolidated Financial Statements for year 2015.

#### *Share Options*

No share options were granted to executive directors during 2015.

#### *Other Benefits*

Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. The CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for executive management are disclosed in Note 49 of the Consolidated Financial Statements for year 2015.

### 11.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel

2015	Executive Directors	Other key management personnel
	€000	€000
Salaries and other short term benefits	1.061	3.328
Employer's contributions	66	164
Retirement benefit plan costs	128	178
<b>Total</b>	<b>1.255</b>	<b>3.670</b>
<b>Number of beneficiaries during the year</b>	<b>2</b>	<b>15</b>

2014	Executive Directors	Other key management personnel
	€000	€000
Salaries and other short term benefits	859	2.231
Termination benefits	-	250
Employer's contributions	51	166
Retirement benefit plan costs	113	210
<b>Total</b>	<b>1.023</b>	<b>2.857</b>
<b>Number of beneficiaries during the year</b>	<b>2</b>	<b>15</b>

#### 11.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

The fees of the non-executive directors include fees as members of the BoD of the Company and its subsidiaries, as well as of committees of the BoD. They include the fees and benefits for the period that they serve as members of the BoD.

The other key management personnel emoluments include the remuneration of the members of the EXCO since the date of their appointment to the committee and other directors who report directly to the CEO.

The termination benefits in 2014 relate to early retirement benefits paid to a member of key management personnel who left the Group in 2014.

*Remuneration for year 2015 (excluding termination benefits) by business line*

	Remuneration	Number of employees/ positions
2015	€000	
Corporate	131	1
Retail	166	1
IBUs	136	1
Private Banking	125	1
RRD	1.783	1
Insurance operations	299	2
Head office	2.285	10
<b>Total</b>	<b>4.925</b>	<b>17</b>

During 2015, there was one key management personnel with total emoluments for the year, including employer's contributions and other benefits, in the range of €1million to €1,5million.

*Remuneration for year 2014 (excluding termination benefits) by business line*

	Remuneration	Number of employees/ positions
2014	€000	
Corporate	132	1
Retail	164	1
IBUs	134	1
Private Banking	126	1
RRD	612	1
Insurance operations	300	2
Head office	2.412	10
<b>Total</b>	<b>3.880</b>	<b>17</b>

#### 11.4 Fees and Emoluments of Members of the Board of Directors and Other Key Management Personnel (continued)

<i>Non-executives</i>	<b>2015</b>	2014
	<b>€000</b>	€000
<b>Total fees</b>	<b>822</b>	424

#### 11.5 Additional Information

Every year, the HRRC proposes to the BoD, the Annual Remuneration Policy Report which forms part of the Annual Corporate Governance Report of the Company. The Remuneration Policy Report is submitted to the shareholders' Annual General Meeting for approval.

#### 12. Leverage

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure and is expressed as a percentage.

Institutions shall calculate the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter. The CBC has permitted the Bank to calculate the end-of-quarter leverage ratio rather than the arithmetic mean of the monthly leverage ratios over a quarter and as a result this is the current practice followed.

The leverage ratio of the Group is calculated using two capital measures:

- (a) Tier 1 capital: fully phased-in definition.
- (b) Tier 1 capital: transitional definition.

As result, two leverage ratios are calculated.

As at 31 December 2015, the leverage ratio of the Group was equal to 12,03% (2014: 11,97%) using a transitional definition of Tier1 and 11,32% (2014: 11,51%) using a fully phased-in definition of Tier 1 . This ratio is well above the 3% limit.

In order to manage the risk of excessive leverage, the Bank, through the Liquidity Policy, has adopted the internal leverage ratio (defined as total assets over core equity). The internal leverage ratio which is within 15x corresponds approximately to a minimum limit of 7% (1 over 15) which effectively corresponds to the EBA leverage ratio. The limit for the Basel QIS ratio is 3%, hence the aforementioned limit is stricter. To monitor the internal leverage ratio the following traffic light reporting is used:

<b>Leverage x</b>	<b>Categories</b>	<b>Required actions</b>
< 15	A	No change in plans or actions.
15-16	B	Demonstrate in the business plan lower levels in the coming 6 months.
> 16	C	Immediate action to return to category B levels within 3 months and category A within 9 months.

The regulatory transitional leverage ratio of the Group has increased during 2015 mainly due to management's deleveraging efforts (e.g. disposal of Uniastrum, sale of Laiki Bank UK loans). Also, net loans decreased significantly due to increases in provisions.

## 12.1 Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	<b>Application amounts</b>	
	<b>2015</b>	2014
	<b>€000</b>	€000
<b>Total assets as per published financial statements</b>	<b>23.270.501</b>	26.789.402
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(760.106)	(756.960)
Adjustments for derivative financial instruments	(4.334)	(30.685)
Adjustments for securities financing transactions	58.094	114.670
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	526.044	869.525
Other adjustments	(223.674)	(317.444)
<b>Leverage ratio exposure</b>	<b>22.866.525</b>	26.668.508

## 12.2 Leverage Ratio Common Disclosure

	<b>CRR leverage ratio exposures</b>	
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>2015</b>	2014
	<b>€000</b>	€000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	<b>22.272.698</b>	25.652.409
Total on-balance sheet exposures (excluding derivatives and SFTs)	<b>22.272.698</b>	25.652.409
<b>Derivative exposures</b>		
Replacement cost associated with derivatives transactions	<b>1.046</b>	20.672
Add-on amounts for PFE associated with derivatives transactions	<b>8.643</b>	11.232
Total derivative exposures	<b>9.689</b>	31.904
<b>Securities financing transaction exposures</b>		
SFT exposure according to Article 220 CRR	<b>58.094</b>	114.670
Total securities financing transaction exposures	<b>58.094</b>	114.670
<b>Off-balance sheet exposures</b>		
Off-balance sheet exposures at gross notional amount	<b>2.774.835</b>	3.095.526
Adjustments for conversion to credit equivalent amounts	<b>(2.248.791)</b>	(2.226.001)
Total off-balance sheet exposures	<b>526.044</b>	869.525
<b>Capital and Total Exposures</b>		
Tier 1 capital	<b>2.747.772</b>	3.190.955
Total Exposures	<b>22.866.525</b>	26.668.508
<b>Leverage Ratios</b>		
End of quarter leverage ratio	<b>12,1%</b>	11,97%
Leverage ratio (average of the monthly leverage ratios over the quarter)	<b>exemption</b>	exemption



### 12.3 Split-Up of on Balance Sheet Exposures (excluding derivatives and SFTs)

	<b>CRR leverage ratio exposures</b>	
	<b>2015</b>	2014
	<b>€000</b>	€000
<b>Total on-balance sheet exposures (excluding derivatives and SFTs), of which:</b>	<b>22.272.698</b>	<b>25.652.409</b>
<b>Trading book exposures</b>	<b>7.813</b>	<b>5.025</b>
<b>Banking book exposures, of which:</b>	<b>22.264.885</b>	<b>25.647.384</b>
Exposures treated as sovereigns	2.302.842	3.644.544
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	20.907	14.825
Institutions	1.245.483	1.445.270
Secured by mortgages of immovable properties	4.412.468	3.952.180
Retail exposures	2.473.211	2.448.446
Corporates	5.341.806	6.833.134
Exposures in default	4.967.139	5.593.745
Other exposures (e.g. equity and other non-credit obligation assets)	1.501.029	1.715.240

### 13. Information on Credit Risk Mitigation Techniques

The Group has implemented various methods in order to achieve effective mitigation of credit risk. Some of the most important methods are listed below:

- Identifying the sectors of the economy the Bank is not willing to finance or may finance under strict conditions.
- Setting of sanctioning limits for all line Managers and Credit Committees.
- Setting of thresholds relating to Loan to Value Ratios as well as procedures for taking collaterals especially mortgages on residential and commercial properties.
- Issuing circulars and guidelines concerning the granting of credit which are in line with the regulatory directives.

The purpose of collateral is to secure the Bank's claims towards a customer when granting a credit facility and it acts as a credit risk mitigant in the case of customer default.

The Group sets the following criteria for accepting collateral:

- (a) They should be sufficient to cover the proposed facility throughout its duration.
- (b) They should provide capital efficiency and minimum risk.
- (c) They should be easy to realise in the case of customer default in the current regulatory framework and market availability.

As a principle, the financed asset should be obtained as collateral, unless another more liquid asset is offered. In the latter case, a valuation of both assets must be carried out by the same valuer. When the collateral is in the name of a third party, the personal/corporate guarantee of the third party is usually obtained. For capital efficiency, the duration/maturity of the collateral should be at least the same as that of the facility.

### **13. Information on Credit Risk Mitigation Techniques (continued)**

The ISDA/CSA agreements signed with almost all the counterparties with which the Bank performs derivative transactions, includes netting/set off agreement. The netting agreement allows the counterparties to aggregate the amounts owing by each of them under all the derivative transactions outstanding, and replace them with a single net amount payable by one counterparty to the other.

#### **13.1 Main Types of Collateral Accepted**

Collaterals are classified into two categories:

- (a) Own (belonging to the borrower).
- (b) Third Party (belonging to third party, not being the borrower).

Collaterals cover all the facilities of a customer unless specific circumstances or regulatory restrictions dictate that the collaterals are specific at facility level. In case of currency or maturity mismatch for all types of collateral, the Loan to Value ratio threshold is adjusted accordingly.

##### **13.1.1 Legal Pledge of Cash Deposit (Cash Collateral)**

Pledged deposits (blocked funds) including any interest, are considered as the highest level of security.

##### **13.1.2 Government Guarantees**

Guarantees issued by sovereigns are usually governed by the respective law of the country that issues the guarantee and they should be signed by an authorised representative of the government issuing the guarantee.

##### **13.1.3 Bank Guarantees**

These include guarantees issued by local and foreign banks. Bank guarantees are accepted in line with the various Group limits set by the MR department and which are based on each bank's credit worthiness.

##### **13.1.4 Mortgages (Legal Charge on Property)**

Mortgage on real estate property is the most common form of collateral accepted by the Group. They are generally accepted only when the Group's claim ranks first over other creditors. Lower ranking mortgages (i.e. 2<sup>nd</sup>, 3<sup>rd</sup>, etc) are accepted only when the Bank has first ranking mortgage also or where the country's legal system protects the value of a second mortgage. For buildings, a fire/earthquake insurance policy is also required and it should be assigned in favour of the Group.

##### **13.1.5 Assignment of Sale of Contract**

When the property offered as collateral has no official title deed necessary for a mortgage, the Group can accept the assignment of the contract of sale. With the assignment of the contract of sale, the buyer of the property assigns to the Group the benefits arising from the contract. The assignment of the contract should be registered with the Land Registry. The assignment of the sale of contract is also often backed by the corporate guarantee of the developer (seller).

#### **13.1.6 Personal/Corporate Guarantees**

Whilst these are a weaker form of collateral, they are obtained as additional or supporting collateral to other forms of security held by the Group. For corporate guarantees, officers need to ensure that this act is permitted in the incorporation documents of the entity giving the guarantee. When the customer is a legal entity, the personal guarantees of the main shareholders/directors, key persons and any other parties having active participation or control in the entity must be obtained. When the debtor is not a local resident, it is recommended to receive personal guarantees from local residents. The amount of the guarantee should be at least equal to the amount of the facility, and if possible cover any interest or additional charges. All guarantors must be evaluated through the credit scoring or other evaluation processes that are issued from time to time, using relevant assets and liabilities statements which must be at least in time with the revision of the customer's facilities. In order for the Group to accept the guarantees, the guarantors should be solvent.

Additionally, based on the CBC Directive on new loan origination, a guarantor's responsibilities under their guarantee are considered to be the same as the borrower's, therefore they are assessed accordingly and the same information is requested from them as from the borrower.

Guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as supply various documents depending on the case. Although the guarantor's income is not taken into account in calculating the repayment ability of the borrower (except for spouses), they are assessed for creditworthiness and may be rejected for any negative financial or other reasons.

#### **13.1.7 Fixed Charges**

For assets owned by companies, the charge is registered on specific new or existing fixed assets, other than real estate property, of the company. It gives the Bank priority on the charged items over all other creditors including preferential creditors. The ownership, possession and condition of these assets should be verified and where appropriate insurance policies on these assets should be assigned in favour of the Bank.

#### **13.1.8 Floating Charges on Company Assets**

This type of security can only be offered by a limited liability company which registers a charge on all of its assets (present and future), without restrictions, in favour of the Group. The Group must ensure that these assets are adequately insured and the insurance policies are assigned to the Group. The charge gives the Group the right to appoint a receiver to manage the company which gives the Group the following advantages:

- (a) Priority access to the company's assets in case of dissolution (except over preferential creditors or creditors that hold specific charges on the various assets of the company e.g. mortgages) and
- (b) Quick sale of mortgage property owned by the company.

#### **13.1.9 Assignment of Life Insurance Policies**

The original beneficiary assigns to the Group all (a) indemnities from the insurance company in case of death of the beneficiary or (b) proceeds from liquidation/termination of investment/endowment policies. Insurance policies can be Term, Life or Investment/Endowment. The life insurance policy should be by insurance companies approved by the Group as eligible life insurance policy providers.

The assignment of life insurance policies is a lending condition in the following cases:

- (a) Long term facilities, e.g. housing loans.
- (b) Unavailability of tangible collateral.
- (c) The primary collateral offered is considered illiquid.
- (d) There is dependence on a single individual for the repayment of the customer's facility (including the shareholders-company relationship).

### 13.1.10 Assignment of General Insurance Policies

Insurance protection on a mortgaged property is a key factor for the reduction of credit risk. It also directly affects the capital adequacy and asset quality. Therefore, it is mandatory for all mortgaged property to be properly and adequately secured against fire, earthquake and other risks and that the rights of the policy are assigned to the Bank. Other General Insurance policies may include buildings, content, motor, personal accident, public liability, etc.

### 13.1.11 Assignment of Receivables

The original beneficiary assigns the receivables to the Group without notification to the paying party. It is a weaker form of collateral unless the Group can notify the debtor of the assignment. Their eligibility depends on:

- (a) The degree of trust and confidence the Bank has in the assignor.
- (b) The legal assignability of the receivables.
- (c) The clear and unambiguous definability of the receivables and their value.
- (d) The receivables being free from third-party rights.

### 13.1.12 Pledge on Marketable Securities (Shares, Debt Securities, etc)

Due to its high market volatility and dependency on the prevailing economic conditions, the pledge on marketable securities should be carefully evaluated. Where the pledge is justified, the market value should be closely monitored to adhere to the Group's Loan to Value ratios.

## 13.2 Collateral Valuation/Monitoring Policy

It is essential that collaterals offered to the Group as security are valued at the point of credit origination and also monitored at regular intervals. This ensures that the value of the collateral is still adequate to cover the facilities granted by the Group and that they can be taken into account for capital adequacy purposes.

### 13.2.1 Mortgages (Legal Charge on Property)

#### Valuation Frequency/Monitoring

##### *New Lending*

New Lending Amount	No. of Valuations
<b>2015</b>	
Lending < €3 million	1
Lending > €3 million	2 <sup>29</sup>
<b>2014</b>	
Lending < €2 million	1
Lending > €2 million	2 <sup>29</sup>

When an application is evaluated for new lending with property offered as collateral, the valuations are carried out by an external valuer.

In all cases, the lower of the market value and the purchase value (based on the sales contract), is used.

##### *Revision of Facilities*

Properties mortgaged to the Group and held as security are to be monitored at regular intervals to ensure that the value of the property is still adequate to cover the facilities given by the Group.

For the purpose of monitoring the property values, the Group uses the appropriate property price indices.

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<sup>29</sup> If there is a discrepancy greater than 20% between the two valuations then a third valuation should be performed.

### 13.2.1 Mortgages (Legal Charge on Property) (continued)

#### *Restructuring Facilities*

During restructuring applications, the frequency of the revaluations is as follows:

Facility Amount	Date of last Valuation	
2015	Commercial	Residential
Irrespective of amount	1 year	3 years

Facility Amount	Date of last Valuation	
2014	Commercial	Residential
Under €1 million	2 years	2 years
Over €1 million	6 months	6 months

#### *Debt Recoveries Facilities*

For customers who have been transferred to RRD, the frequency of valuations is as follows:

Facility Amount	Frequency/Age of Valuation
2015	
At the time of transfer to RRD (irrespective of amount)	6 months
Irrespective of amount	Monitored using appropriate indices
2014	
At the time of transfer to RRD (irrespective of amount)	Immediately
Under €2 million	2 years
Over €2 million	1 year

### 13.2.2 Assignment of Sale of Contract

Sales contracts do not have a recoverable amount but indirectly acquire value in the following cases:

- (a) When there is a developer guarantee for the buyer's loan and the project is financed and mortgaged within the same bank.
- (b) When accompanied by a bank guarantee or letter of allocation (within the Group).

### 13.2.3 Fixed and Floating Charges

In order to calculate the value of the fixed or floating charge the last audited accounts/item certificate must not be older than 18 months.

For the calculation of the sale value for the assets included in the fixed and/or floating charge, the percentages are included within regulatory directives.

### 13.2.4 Personal/Corporate Guarantees

For the purpose of facility approval no monetary value is assigned to personal or corporate guarantees.

### 13.2.5 Government Guarantees

The recoverable amount is equal to a variable % of the guarantee amount (plus interest from the date that the guarantee is provided), which is differentiated depending on the risk rating of the country offering the guarantee.

### 13.2.6 Bank Guarantees

100% of the guarantee value (entered by the user at origination) plus interest where applicable (from the date of issue). The market value of the bank guarantee is the face value of the guarantee.

### 13.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc)

When listed shares are taken as collateral, the Bank should also ensure:

- Such shares are listed on recognised exchanges where access via its own brokers is feasible.
- That these shares are adequately liquid and the Bank will be able to have an exit route without undue risks on its position.
- That no undue concentration exists on any listed share that the Bank holds as collateral.

The recoverable amount is based on the current market value of the securities. For shares listed on the CSE, the market value is updated on a daily basis automatically based on the latest closing price. For shares traded in other recognised stock exchanges, the market value should be updated manually on a daily basis by the responsible unit/branch.

For non-listed shares, the value is calculated manually based on 50% of the net book value of the company based on recent audited accounts (not older than 18 months).

For monitoring purposes, the appropriate action should be taken by the responsible officer as follows:

LTV increase	Action taken
+15%	Inform appropriate Director – Request additional collateral, deposits, decrease lending, evaluate the possibility of liquidation)
+25%	Inform appropriate Director - immediate liquidation

### 13.2.8 Assignment of Life Insurance Policies

Term life insurance policies have no recoverable amount.

For endowment (investment) life insurance policies, the recoverable amount is 100% of the latest surrender value. This should take into account any possible expenses associated with redeeming the policy.

### 13.2.9 Other Collateral Types

- Pledge on goods (0%).
- Assignment of receivables (0%).
- Positive/Negative pledge (0%).
- Vehicles under stocking finance (0%-75%) depending on the age of the vehicle (recorded manually at origination and then depreciated automatically by the system).
- Items under hire-purchase, 50% of net book value at origination and subsequently depreciated automatically according to the type of item.

## 13.3 Concentrations within Credit Risk Mitigation

The Group has a material concentration of property collateral. Further analysis on fair value of collateral and credit enhancements held by the Group is presented in Note 44 of the Consolidated Financial Statements for year 2015.

#### **14. Operational Risk**

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk and the use of the Standardised Approach was approved by the CBC.

Under the Standardised Approach, net interest and non-interest income are classified into eight business lines, as set out in the relevant regulation. The capital requirement is calculated as a percentage of the average income over the past three years, ranging between 12% and 18% depending on the business line. If the capital requirement in respect of any year of income is negative, it is set to zero in the average calculation.

#### **15. Exposure to Market Risk**

The total capital Requirements for MR as at 31 December 2015 consists of capital requirement of €625 thousand due to equities in the trading booked (2014: €400 thousand due to equities in the trading book and €2 thousand due to commodities).

There were no large exposures for institutions as at 31 December 2015 and 2014 that exceeded the relevant limits.

The minimum capital requirement for market risk is presented in Section 4.2.

## APPENDIX I – Specific References to CRR Articles

CRR ref.	High-level summary	Compliance reference
<b>Scope of disclosure requirements</b>		
431 (1)	Requirement to publish Pillar III disclosures.	Section 1.2
431 (2)	Disclosure of operational risk information.	Section 2.2.3
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	The Bank has a dedicated Pillar III policy
431 (4)	Explanation of ratings decisions to SMEs upon request.	Not applicable to the Bank
<b>Non-material, proprietary or confidential information</b>		
432	Non-material, proprietary or confidential information	Not applicable to the Bank
<b>Frequency of disclosure</b>		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements and more frequently if necessary.	Section 1.2
<b>Means of disclosures</b>		
434 (1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	All applicable disclosures are contained within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Cross-references to accounting and other disclosures are indicated in the Report
<b>Risk management objectives and policies</b>		
435 (1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Sections 2.1 and 2.2
435 (1) (b)		Sections 2.1 and 2.2
435 (1) (c)		Sections 2.1 and 2.2
435 (1) (d)		Sections 2.1 and 2.2
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.1
435 (1) (f)	Concise risk statement approved by the BoD.	Section 2.1
435 (2)	Information, once a year at a minimum, on governance arrangements.	Annual Corporate Governance Report 2015
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2015
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2015
435 (2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Section 2.3.3
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 2.3.4
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.5 and Appendix III
<b>Scope of application</b>		
436 (a)	Name of institution.	Section 1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 1.3 and Appendix II
436 (b) (i)	Fully consolidated;	Section 1.3 and Appendix II
436 (b) (ii)	Proportionally consolidated;	Section 1.3 and Appendix II
436 (b) (iii)	Deducted from own funds;	Section 1.3 and Appendix II
436 (b) (iv)	Neither consolidated nor deducted.	Section 1.3 and Appendix II



**APPENDIX I – Specific References to CRR Articles** (continued)

<b>Scope of application</b> (continued)		
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 2.2.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Section 1.2
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not applicable to the Bank
<b>Own funds</b>		
437 (1)	Requirements regarding capital resources table.	Section 3
437 (1) (a)		Section 3
437 (1) (b)		Section 3
437 (1) (c)		Section 3
437 (1) (d) (i)		Section 3
437 (1) (d) (ii)		Section 3
437 (1) (d) (iii)		Section 3
437 (1) (e)		Not applicable to the Bank
437 (1) (f)		Not applicable to the Bank
437 (2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above.	The Bank follows the implementation standards.
<b>Capital requirements</b>		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 4
438 (b)	Result of ICAAP on demand from competent authority.	Section 2.1.10
438 (c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	Section 4.1
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not applicable to the Bank
438 (d) (i)		Not applicable to the Bank
438 (d) (ii)		Not applicable to the Bank
438 (d) (iii)		Not applicable to the Bank
438 (d) (iv)		Not applicable to the Bank
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 4.2
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Section 4.3
<b>Exposure to counterparty credit risk (CCR)</b>		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 5.1
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Section 5.2
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Section 5.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 5.4
439 (e)	Derivation of net derivative credit exposure.	Section 5.5
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Section 5.6

**APPENDIX I – Specific References to CRR Articles** (continued)

<b>Exposure to counterparty credit risk (CCR)</b> (continued)		
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Section 5.7
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable to the Bank
439 (i)	Estimation of alpha, if applicable.	Not applicable to the Bank
440 (1) a	Geographical distributions of credit exposures	Section 6.3.1
440 (1) b	Amount of the institution specific countercyclical buffer	Section 1.2
440 (2)	EBA will issue technical implementation standard regarding 440 (1)	Section 1.2
<b>Indicators of global systemic importance</b>		
441	Indicators of global systemic importance	Not applicable to the Bank
<b>Credit risk adjustments</b>		
442 (a)	Definitions for accounting purposes of 'past due' and 'impaired'.	Section 6.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.1
442 (c)	Exposures post-value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by different types of exposure classes.	Section 6.2
442 (d)	Exposures post value adjustments (before applying Credit Risk Mitigation and after applying credit conversion factors) by	Section 6.3
442 (e)	significant geographic areas and material exposure classes and by industry and exposure class.	Section 6.3
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.4
442 (g)	Breakdown of impaired, past due, specific and	Section 6.5
442 (g) (i)	general credit adjustments, and impairment	Section 6.5
442 (g) (ii)	charges for the period, by exposure class or	Section 6.5
442 (g) (iii)	counterparty type.	Section 6.5
442 (h)	Impaired, past due exposures, by geographic area, and amounts of specific and general impairment for each geography.	Section 6.6
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.9.1
442 (i) (i)		Section 6.9.1
442 (i) (ii)		Section 6.9.1
442 (i) (iii)		Section 6.9.1
442 (i) (iv)		Section 6.9.1
442 (i) (v)		Section 6.9.1
442 endnote	Specific credit risk adjustments recorded to income statement.	Section 6.9.2
<b>Unencumbered assets</b>		
443	Disclosures on unencumbered assets.	Section 7
<b>Use of ECAIs</b>		
444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Section 8.1
444 (b)	Exposure classes associated with each ECAI.	Section 8.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	Section 8.2

**APPENDIX I – Specific References to CRR Articles** (continued)

<b>Use of ECAIs</b> (continued)		
444 (d)	Mapping of external rating to credit quality steps.	Section 8.1
444 (e)	Exposure values pre-credit risk mitigation and post-credit risk mitigation, by credit quality step.	Section 8.3
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 15
<b>Operational risk</b>		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 14
<b>Exposure in equities not included in the trading book</b>		
447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 9
447 (b)	Recorded at fair value, and actual prices of exchange traded equity where it is materially different from fair value.	Section 9
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 9
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 9
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Section 9
<b>Exposure to interest rate risk on positions not included in the trading book</b>		
448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 10.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 10.2
<b>Exposure to securitisation positions</b>		
449	Exposure to securitisation positions	Not applicable to the Bank
<b>Remuneration disclosures</b>		
450	Remuneration policy.	Section 11
<b>Leverage</b>		
451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 12.1 and 12.2
451 (1) (b)		Sections 12.1 and 12.2
451 (1) (c)		Sections 12.1 and 12.2
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	Section 12
451 (1) (e)		Section 12
451 (2)	EBA shall develop implementation standards for points above.	The Bank follows the implementation standards.
<b>Use of the IRB Approach to credit risk</b>		
452	Use of the IRB Approach to credit risk	Not applicable to the Bank

**APPENDIX I – Specific References to CRR Articles** (continued)

<b><i>Use of credit risk mitigation techniques</i></b>		
453 (a)	Policies and processes, and an indication of the extent to which the Bank makes use of on-balance sheet and off-balance sheet netting.	Section 13
453 (b)	Policies and processes for collateral valuation and management.	Section 13.2
453 (c)	Description of types of collateral used by the Bank.	Section 13.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 13
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 13.3
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.8
<b><i>Use of the Advanced Measurement Approaches to operational risk</i></b>		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not applicable to the Bank
<b><i>Use of Internal Market Risk Models</i></b>		
455	Use of Internal Market Risk Models	Not applicable to the Bank

## APPENDIX II – Basis of Consolidation of Group entities for regulatory purposes

The main Group companies and branches, their country of incorporation, their activities, the percentage held by the Bank (directly or indirectly) and their consolidation method as at 31 December 2015 are:

Company	Country	Activities	Percentage holding (%)	Consolidation Method	
				Accounting purposes	Prudential purposes
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A	C	C
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100	C	C
General Insurance of Cyprus Ltd	Cyprus	General insurance	100	C	D
EuroLife Ltd	Cyprus	Life insurance	100	C	D
Kermia Ltd	Cyprus	Property trading and development	100	C	D
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100	C	D
Kermia Hotels Ltd	Cyprus	Hotel business	100	C	D
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53	C	D
Finerose Properties Ltd	Cyprus	Financing services	100	C	C
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67	C	C
CLR Investment Fund Public Ltd	Cyprus	Investment company	20	C	D
Auction Yard Ltd	Cyprus	Auction company	100	C	C
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75	C	C

**APPENDIX II – Basis of Consolidation of Group entities for regulatory purposes** (continued)

Company	Country	Activities	Percentage holding (%)	Consolidation Method	
				Accounting purposes	Prudential purposes
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	N/A	C	C
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	N/A	C	D
Kyprou Asfaltistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A	C	D
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100	C	C
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100	C	C
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100	C	C
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A	C	C
Cyprus Leasing Romania IFN SA	Romania	Leasing	100	C	C
MC Investment Assets Management LLC	Russia	Problem asset management company	100	C	C
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100	C	C

C: Fully consolidated  
D: Deducted from Capital Base  
PC: Proportionally consolidated  
N: Neither consolidated nor deducted

**APPENDIX II – Basis of Consolidation of Group entities for regulatory purposes** (continued)

In addition to the above companies, the Bank had 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets. They are all 'Fully Consolidated' for both accounting and prudential purposes.

**Cyprus:** Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Fairford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligosimo Properties Ltd, Thames Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Stamoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Calomland Properties Ltd, Dominion Industries Ltd, Ledra Estates Ltd, Eurolife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Philiki Management Services Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Obafemi Holdings Ltd, Pamaco Platres Complex Ltd, Gosman Properties Ltd, Odaina Properties Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Iperi Properties Ltd, Warmbaths Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Tavoni Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Solutio Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Besadoco Properties Ltd, Mainport Properties Ltd, Tezia Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Astromeria Properties Ltd, Neraland Properties Ltd, Gilfront Properties Ltd, Canemia Properties Ltd, Orzo Properties Ltd, Pariza Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd and Browneye Properties Ltd.

**Romania:** Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Unknownplan Properties SRL, Frozenport Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Melgred Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Nikaba Properties SRL and Selilar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

**Cyprus:** Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd and Hydrobius Ltd.

The Group also holds 100% of the following companies which are inactive:

**Greece:** Kyprou Commercial SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

**APPENDIX II – Basis of Consolidation of Group entities for regulatory purposes** (continued)

**Change in the control holding of MC Investment Assets Management LLC**

In the context of the disposal of the majority of the Russian operations in September 2015, the Group increased its controlling interest in MC Investment Assets Management LLC to 100% from 80%. This transaction has been reflected as an equity transaction from non-controlling interests to the owners of the Company.

**Dissolution and disposal of subsidiaries**

As at 31 December 2015, the following subsidiaries were in the process of dissolution or in the process of being struck off: Kyprou Securities SA, BOC Ventures Ltd, Ltd, Salecom Ltd, Longtail Properties Ltd, Turnmill Properties Ltd, Limestone Holdings Ltd, Bank of Cyprus Mutual Funds, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC and Omiks Finance LLC.

Elswick Properties Ltd was disposed of on 27 July 2015.



**APPENDIX III Information flow on risk to management body**

<b>S/N</b>	<b>Report Name</b>	<b>Report Description</b>	<b>Covers Group OR Cyprus</b>	<b>Owner of Report/Preparer</b>	<b>Recipient (Competent Authority)</b>	<b>Copied to</b>	<b>Frequency</b>
1	Quarterly Operational Risk Report	Report of Major Operational Risk issues as these are derived from the Activities of Operational Risk Management department	Group	Operational Risk Management	EXCO, BRC		Quarterly
2	Annual Risk Management Report	Annual report of Risk Management Division activities, strategy and results	Cyprus	GCRO , All Managers	EXCO, BRC, BoD, CBC		Yearly
3	Annual Report on Information Security	Reports to CBC current risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	CBC, EXCO, BRC, BOC		Yearly
4	Portfolio performance	In depth analysis of portfolio, restructurings performance, roll rates, etc	Cyprus	Credit Risk Reporting	EXCO, BRC		Monthly
5	Risk report	Report of key risk indicators and events as well as data on selected credit appraisal statistics (encompasses the full spectrum of risks such as credit, market, operational, information security, international and subsidiaries)	Group	Risk Management	BRC, EXCO and BoD	CBC	Monthly

**APPENDIX III Information flow on risk to management body** (continued)

<b>S/N</b>	<b>Report Name</b>	<b>Report Description</b>	<b>Covers Group OR Cyprus</b>	<b>Owner of Report/Preparer</b>	<b>Recipient (Competent Authority)</b>	<b>Copied to</b>	<b>Frequency</b>
6	Quarterly information security report	Report of major information Security issues	Group	Information Security	EXCO, BRC		Quarterly
7	Country risk report	Monitoring of exposures per country	Group	Market Risk	ALCO, BRC, BoD		Semi Annually
8	Review of policies		Cyprus	All Managers	ALCO, EXCO, BoD, AC and BRC		Yearly
9	ICAAP	Internal Capital Adequacy Assessment Process	Group	GCRO/Market Risk	ECB, ALCO, EXCO, BRC, BoD	SSM/CBC	Yearly
10	ILAAP	Individual Liquidity Adequacy Assessment	Group	GCRO/Market Risk	ECB, ALCO, EXCO, BRC, BoD	SSM/CBC	Yearly
11	Material Approvals >€100million	Presents summary of all material approvals (restructurings, large exposures, etc)	Group	Credit Risk Assessment	BRC and BoD		Quarterly
12	Portfolio specific loan arrears resolution	Monitoring of targets and report them to the CBC	Cyprus	Credit Risk	CBC and BRC		Quarterly
13	Write-offs Report	Presents write-off cases greater than €1m	Group	Credit Risk	BRC, BoD		Quarterly
14	Market Risk Report	Report on major market risks, limits, deviations and other pertinent information.	Group	Market Risk	BRC		Quarterly

**APPENDIX III Information flow on risk to management body** (continued)

S/N	Report Name	Report Description	Covers Group OR Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Copied to	Frequency
15	Group Regulatory / Supervisory Activity Update Report	Report provides for the last 6 months:  a) summary of key highlights / figures,  b) key statistics on outstanding regulatory obligations, regulatory projects and completed regulatory obligations,  c) key issues on the reviews outstanding or completed.	Group	RSCO	ExCo, RSG, BRC		Quarterly
16	ECB Communication	Table with date, title and key points for each major communication of the Bank with ECB	Group	RSCO	BoD, RC,AC		Monthly

**APPENDIX III Information flow on risk to management body** (continued)

S/N	Report Name	Report Description	Covers Group OR Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Copied to	Frequency
17	Credit Risk Assessment Progress & Findings	Report includes a range of subjects: 1) Quality assurance requirements as per "Review and assessment of BOC arrears management framework. 2) Inform on the monitoring of the implementation of terms, conditions and covenants set in reviewed applications. 3) Describe the actions taken by CRA for the period. 4) Evaluate the performance / efficiency of loan sanctioning authorities and processes. 5) Identify any deviations between CRA comments and final Decision issued by Sanctioning authorities	Group	Credit Risk	GCRO,BRC, EXCO		Semi annual

## GLOSSARY

<b>A</b>	
ATHEX	Athens Exchange
ADC	Acquisitions and Disposals Committee
ALCO	Assets and Liabilities Committee
AQR	Asset Quality Review
AFS	Available-for-Sale
AT1	Additional Tier 1
AS	Agency Services
AM	Asset Management
ABSs	Asset Backed Securities
AML	Anti Money Laundering
AC	Audit Committee
<b>B</b>	
Bank	Bank of Cyprus Public Company Ltd
BoD	Board of Directors
BRC	Board Risk Committee
BIS	Bank for International Settlements
BCP	Business Continuity Plans
<b>C</b>	
CEO	Chief Executive Officer
Company	Bank of Cyprus Public Company Ltd
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive
CBC	Central Bank of Cyprus
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Appraisal Department
CRRCD	Credit Risk Reporting and Control Department
CRCU	Credit Risk Control Unit
CRU	Credit Reporting Unit
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CVA	Credit Valuation Adjustment
CF	Corporate finance
CB	Commercial Banking
CSA	Credit Support Annex
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
CCC	Collection Call Center
CRR	Capital Requirements Regulation
<b>D</b>	
DR	Disaster Recover
<b>E</b>	
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EXCO	Executive Committee
ECB	European Central Bank
EBA	European Banking Authority
ELA	Emergency Liquidity Assistance
ERC	Expected Replacement Cost
ECAIs	External Credit Assessment Institutions
<b>F</b>	
FX	Foreign Exchange

**GLOSSARY** (continued)

<b>G</b>	
GIC	General Insurance of Cyprus
Group	Bank of Cyprus Group
GCRO	Group Chief Risk Officer
GORM	Group Operational Risk Management Department
<b>H</b>	
HFT	Held-for-Trading
HR	Human Resources
HRRC	Human Resources and Remuneration Committee
<b>I</b>	
IFRS	International Financial Reporting Standards
IT	Information technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association, Inc.
<b>K</b>	
KRDs	Key Risk Drivers
KRIs	Key Risk Indicators
KPIs	Key Performance Indicators
<b>L</b>	
LCR	Liquidity Coverage Ratio
<b>M</b>	
MR	Market Risk
MM	Money Market
<b>N</b>	
NCGC	Nominations and Corporate Governance Committee
NPEs	Non Performing Exposures
NPV	Net Present Value
NRS	Non Rate Sensitive
NSFR	Net Stable Funding Ratio
NCGC	Nominations and Corporate Governance Committee
<b>O</b>	
OECD	Organisation for Economic Co-operation and Development
OCI	Other Comprehensive Income
ORM	Operational Risk Management
OTC	Over-the-Counter

**GLOSSARY** (continued)

<b>P</b>	
PS	Payment and Settlement
PD	Probability of default
<b>R</b>	
Report	Pillar 3 disclosures 2015
RSG	Regulatory Steering Group
RSCO	Regulatory/Supervisory Coordination Office
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	Risk Control Self-Assessment
RAM	Retail Arrears Management Department
RBr	Retail Brokerage
RB	Retail Banking
RHRC	Remuneration and Human Resources Committee
REMU	Real Estate Management Unit
<b>S</b>	
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory and Evaluation Mechanism
SME	Small Medium Enterprises
SFTs	Securities Financing Transactions
<b>T</b>	
T2	Tier 2
TC	Total capital
TS	Trading and Sales
TLTRO	Targeted-long term refinancing operations
<b>V</b>	
VaR	Value at Risk